A TRADITION OF PARTNERSHIP

J.C. Penney Company, Inc. 1993 Annual Report

THIS IS JCPENNEY

JCPenney is a major retailer, with department stores in all fifty states and Puerto Rico. The dominant portion of the Company's business consists of providing merchandise and services to consumers through department stores that include catalog departments. The Company markets predominantly family apparel, shoes, jewelry, accessories, and home furnishings.

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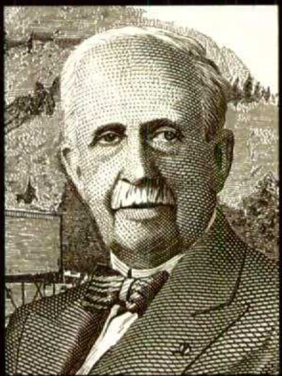
"EVERYTHING WE BELIEVE ABOUT WHAT WE ARE BUILDING IS ROOTED IN OUR CONCEPT OF PARTNERSHIP."

James Cash Penney



"OUR ENERGIES ARE DIRECTED TOWARD BUILDING OUR BUSINESS, GAINING MARKET SHARE, AND ACHIEVING NEW LEVELS OF SUSTAINABLE GROWTH."

W.R. Howell

TO OUR STOCKHOLDERS:

William R. Howell, chairman of the board and chief executive officer.

Your Company reached record heights in 1993. Total retail sales rose 5.4 per cent to $19 billion, and net income improved 21 per cent to $940 million, the highest level in the Company's history. Total revenue reached $19.6 billion, exceeding expectations.

JCPenney Stores and our merchandising operations played a major role in our success. Stores registered strong sales growth, and productivity increased to $146 per square foot from $137, a rate of increase outpacing most other department stores.

This is the second consecutive year that JCPenney has turned in a powerful performance, one that translates into equally strong returns for its stockholders. Earnings per share increased 20 per cent to $3.53, and return on stockholders' equity was 20.1 per cent, which places us among the top performing retailers.

These results prompted your Board of Directors this month to increase the quarterly dividend by 16.7 per cent to 42 cents per share. The increase brings the indicated annual rate to $1.68. The Board also approved a purchase of up to 10 million shares of common stock to offset dilution caused by the issuance of stock under the Company's equity compensation and benefits plans.

Achieving two outstanding years in succession gives your Company enormous momentum. Equally important, this success confirms our conviction that the JCPenney value equation of fashion, quality, and price is on target for the consumer of the '90s. When your Company's performance is measured against the broader retail scene, where apparel sales continue to be sluggish for many, the wisdom of this strategy stands out with even greater force and clarity.

Throughout 1993, we continued to focus on providing exclusive, value-oriented merchandise through ongoing development of our private brands. Our success stories are numerous. JCPenney's Sheer Caress™ microfiber hosiery, made of the newest, most innovative yarn, sells for half the price of equal quality name brands. Worthington® is among the top-selling women's careerwear brands in the country. Our Arizona Jean Co.® brand is well on its way to a dominant position in the jeanswear area. The Stafford® Executive all-cotton dress shirt was rated highly by a prominent consumer organization. And the list goes on.

These exclusive private brands, coupled with a good selection of national brands, offer our customers a fashion and value balance that is unique and a menu of choices that is compelling.

We are telling our story to the consumer more forcefully than ever before. In November, we initiated a new advertising campaign. Its theme, "Doing It Right,℠" emphasizes JCPenney's strategy in print and electronic media. Our private brands now have their own television commercials, presenting their unique fashion and value stories and dramatically enhancing their visibility.

Our nationwide marketing capability and powerful private brands, accepted by consumers as national in scope, are unique in the retail industry. We combine them with intensive quality control, sophisticated international sourcing, and state-of-the-art technology.

The story of 1993 would not be complete without recognition of the extraordinary results of our Catalog Division. Catalog produced record-breaking gains during this, its 30th anniversary year. Sales rose 11.0 per cent to $3.5 billion, and the 1993 Fall/Winter Catalog delivered

a record of its own — it was the single biggest sales volume catalog we have ever produced.

Catalog again saw excellent gains from specialty catalogs and expanded its reach in this profitable area with new publications. The division attracted a record number of new customers who shopped JCPenney catalog for the first time and was also able to increase the productivity of existing catalog customers. Our decision in April 1993 to accept the Discover Card was a key factor in helping us bring in new business.

We continue to monitor the development and long-term implications of electronic retailing. And we are taking our unique value combination of fashion, quality, and price to world markets as well. Your Company will open the first of seven JCPenney department stores in Mexico in 1995. We are also exploring opportunities for stores in South America.

Outside the retail arena, your Company also performed well. The Company's insurance operations achieved record levels of profitability in 1993, reaching new customers through extended marketing programs and improving its policy renewal rate. JCPenney National Bank also registered gains in pre-tax profits in 1993.

Our success in 1993 was made possible by our many strong partnerships. The day-to-day performance of associates at every level of the Company enables us to be the retailer who, as our advertising campaign says, is "Doing It Right™" for our customers. We have enhanced teamwork within the Company, built closer relationships with suppliers, supported our communities, and intensified our customer focus. These stories will be told more fully in the following pages on JCPenney partnerships.

During the year, we said goodbye with respect to long-time partners Richard T. Erickson, executive vice president and director of personnel; Henry H. Scott, president of the children's division; James J. Kennedy, president of the home and leisure division; and regional presidents Richard C. Sherwood and William J. Ferguson, all of whom retired in 1993. We extend to them our thanks for their devoted service and best wishes for the future.

Newly promoted officers, who will help us move into the 21st century, are Gale Duff-Bloom, executive vice president and director of administration; Charles R. Lotter, executive vice president, secretary, and general counsel; Marilee J. Cumming, president of the home and leisure division; N. Tice Siegel, Jr., president of the children's and family shoes division; Thomas B. Ashmore, president of the Northeastern region; and Edward T. Howard, president of the Southwestern region.

We saw consumer confidence improve late in 1993 as the overall economic outlook continued to brighten and employment posted good gains at year end. Consumers' disposable income grew as well, and low interest rates continued to entice them into the housing market. We expect inflation to remain in check for the foreseeable future, in part due to a continued focus by most sectors of the economy on competitive pricing.

These factors will provide a positive environment for your Company in the coming year and beyond. Consumers, however, pressured by higher taxes and uncertainties about health care reform, will continue to spend with care, demanding the best value for their money.

This climate is exactly right for JCPenney. Our energies are directed toward building our business, gaining market share, and achieving new levels of sustainable growth. With the energy and excitement of two great years behind us and the continued support of our customers, associates, suppliers, and you, our stockholders, we are confident that 1994 will match our highest expectations.

Warmest regards,

W.R. Howell

Chairman of the Board and
Chief Executive Officer
March 28, 1994

FINANCIAL HIGHLIGHTS

PARTNERSHIP WITH OUR ASSOCIATES

"THE STRENGTH AND SWIFTNESS OF OUR GROWTH AS A COMPANY WAS DUE TO THE KNOWLEDGE THAT NONE OF US COULD SUCCEED ALONE... WE KNOW THAT WE MUST RISE OR FALL TOGETHER."

James Cash Penney, 1931

Behind every JCPenney success story stands a team of dedicated JCPenney associates. The talent, drive, and commitment of our associates have moved this Company from its small beginnings in a tiny mining town to the $20 billion enterprise it is today.

The idea of associate partnerships dates to the Company's earliest days, when James Cash Penney offered successful associates an opportunity to buy a part interest in new stores. He saw these partnerships as the cornerstone of his success. "The strength and swiftness of our growth as a Company was due to the knowledge that none of us could succeed alone," he wrote in 1931. "We know that we must rise or fall together."

The primary aspect of the partnership concept continues today in the JCPenney savings, profit-sharing, and stock ownership plan, which enables all associates to "buy into" their Company and share the fruits of our success.

Our partnership goes deeper than dollars, however; it is anchored in Company tradition. When the Golden Rule Stores incorporated as the J.C. Penney Company in 1913, James Cash Penney and his partners established a partnership ceremony. They created a Company motto — *Honor, Confidence, Service,* and *Cooperation,* or HCSC — and wrote a set of principles now called *The Penney Idea.*

Both motto and principles still guide Company policy, and partnership ceremonies are alive and thriving. In October 1993, nearly 1,100 profit-sharing management associates took part in HCSC Inaugurations held at the Company's home office in Plano. The ceremony marks a major milestone in the careers of JCPenney management associates.

Growth is essential to healthy companies; it is equally necessary to healthy individuals. For that reason, our partnership with associates includes training, development, and opportunities for risk taking.

We continually update our sales associates on new products, visual merchandising techniques, and specialized skills such as cosmetic application, fitting and alterations, and wardrobe building. We provide trainees with opportunities to learn and grow through

James Cash Penney and store associates examine the quality of fabric offered for sale in a Memphis, Tennessee, store in 1957.

workshop instruction and application projects. In addition, each year, approximately 6,000 management associates attend in-house workshops designed to enhance their skills.

Each associate at JCPenney is a one-of-a-kind combination of characteristics, and as a Company, we are committed to respecting those individual differences and valuing the contributions of all.

Since 1989, a Diversity Steering Committee, Minority Advisory Team, and Women's Advisory Team have worked to enhance diversity at all levels in the Home Office. Similar teams have been formed in our retail regions and districts. Workshops on "Valuing Cultural Differences" have been presented to more than 8,500 management associates. And a new skills-based workshop on diversity, "Leadership in the '90s," will begin in August of this year. In addition, a new diversity positioning statement, released in February, emphasizes to all our associates our commitment to valuing differences.

The positioning statement expresses our intention to overlook nothing in our treasure chest of human resources. Our diversity programs will help us attract and retain the best and brightest associates. And they will be instrumental in helping us serve our increasingly diverse customers.

James Cash Penney knew that motivated, dedicated associates build high-performance companies. And only high-performance companies can compete successfully in a changing marketplace.

With our 193,000 associates, we are sure of our success.

At JCPenney today, cross-functional teams draw together diverse groups to address business issues. Below, members of the Minority Advisory Team, formed in 1989, work to enhance diversity and foster a multicultural environment.

PARTNERSHIP WITH THE COMMUNITY

JCPenney is woven into the fabric of America, part of and partner in this country's history, economy, and daily life.

For Company founder James Cash Penney, partnership with our communities was an article of faith. "Past experience in our business has definitely proved to me that no business can reach its highest development in any locality unless it is community-minded," he wrote in 1930.

He lived his belief as a businessman and philanthropist, and he encouraged his managers and associates to follow suit. That tradition of community service continues today. JCPenney managers and associates across the country join their fellow citizens in a host of civic organizations, enhancing the quality of community life through chambers of commerce, charities, religious groups, volunteer centers, schools, and more.

Because the future is in our children's hands, education has become a primary concern of your Company. Our flagship education program, the JCPenney High Performance Schools Project, provided grants to ten Fort Worth, Texas, leadership schools, conducted training institutes, and shared JCPenney's expertise in decentralized management with educators. Our stores and units have also formed partnerships with local schools, offering tutoring, management expertise, and financial or material contributions.

JCPenney further strengthens America's communities through support of the volunteer spirit. The Company's James Cash Penney Award for Community Service honors JCPenney associates who volunteer in their communities. In 1993, associates volunteered more than 134,000 hours to service agencies. The JCPenney Golden Rule Award, established in 1982, honors community volunteers from outside the Company. In 1993, more than 800 Golden Rule Award winners and 10,000 nominees were cited in 174 communities in 42 states. The two award programs are supported by contributions of about $1.7 million to non-profit organizations.

"PAST EXPERIENCE IN OUR BUSINESS HAS DEFINITELY PROVED TO ME THAT NO BUSINESS CAN REACH ITS HIGHEST DEVELOPMENT IN ANY LOCALITY UNLESS IT IS COMMUNITY-MINDED."

James Cash Penney, 1930

James Cash Penney's many philanthropic activities included years of support for 4-H clubs. His service is commemorated in a mural in J.C. Penney Hall at the National 4-H Center in Chevy Chase, Maryland. The building was dedicated and the mural painted in 1977.

JCPenney also reaches out to America's communities through Company-wide support of the United Way. In stores, offices, and other facilities, enthusiastic associates, including the Company's most senior managers, campaign for United Way support. The 1993 campaign was supported by 68 per cent of JCPenney associates nationwide, raising a record $13.8 million in associate and unit pledges for local United Ways.

Your Company joins the Susan G. Komen Breast Cancer Foundation as the national presenting sponsor of the 1994 Race for the Cure. The run/fitness walk will take place in 48 cities and draw more than 180,000 walkers and runners. Proceeds from the races will support education programs and mammogram screening for medically under-served women in the Race for the Cure communities.

The Company also champions women's interests through sponsorship of National Girls and Women in Sports Day and women's conferences in major cities across the country.

JCPenney is a partner with all of America in working to improve the environment. Our annual Environmental Packaging Excellence Award encourages environmental consciousness by recognizing associates who develop packaging solutions that meet Company environmental objectives. Our catalog distribution centers recycle 70 per cent of their waste, including paper, glass, aluminum, and batteries. JCPenney catalogs will be collected for recycling at JCPenney stores in eight markets during April and October. And when we constructed our new home office, environmental concerns were built in with the bricks and mortar.

The Company supports additional civic and charitable agencies, through local and national contributions, which totaled $23 million in 1993.

Being a good corporate citizen is a JCPenney tradition. It's also simply good business sense: Healthy communities make for healthy businesses.

Top right: James Valentino, an associate at the Eatontown, New Jersey, JCPenney store, has been a member of the Long Branch Volunteer Fire Department for 26 years. He was named a 1993 national winner of the James Cash Penney Award for Community Service. Below right: Retired U.S. Marines Master Sergeant Fred McWilliams won a 1993 National Golden Rule Award for his volunteer work with Alpha of San Diego, where he helps to provide food to more than 5,000 families each month. Above left: Chairman W.R. Howell delivered Meals on Wheels during the 1993 United Way campaign kickoff in Atlanta, Georgia.

PARTNERSHIP WITH OUR SUPPLIERS

Trust, honesty, sharing... they may sound like unusual words for describing a successful business strategy. But they are critical elements in our partnerships with suppliers.

James Cash Penney knew that "buying it better means working honestly and harmoniously with manufacturers and wholesalers" as well as demanding top-notch quality. Today, we've learned that we can best serve our customers by working more closely than ever with textile mills, apparel makers, and home furnishings manufacturers.

Since 1985, JCPenney has been working with supplier partners to shorten the replenishment cycle, improve our in-stock position, and reduce on-hand inventory. The industry calls this "quick response," and we've labeled our quick response effort "Accelerated Supply and Purchasing"— or ASAP.

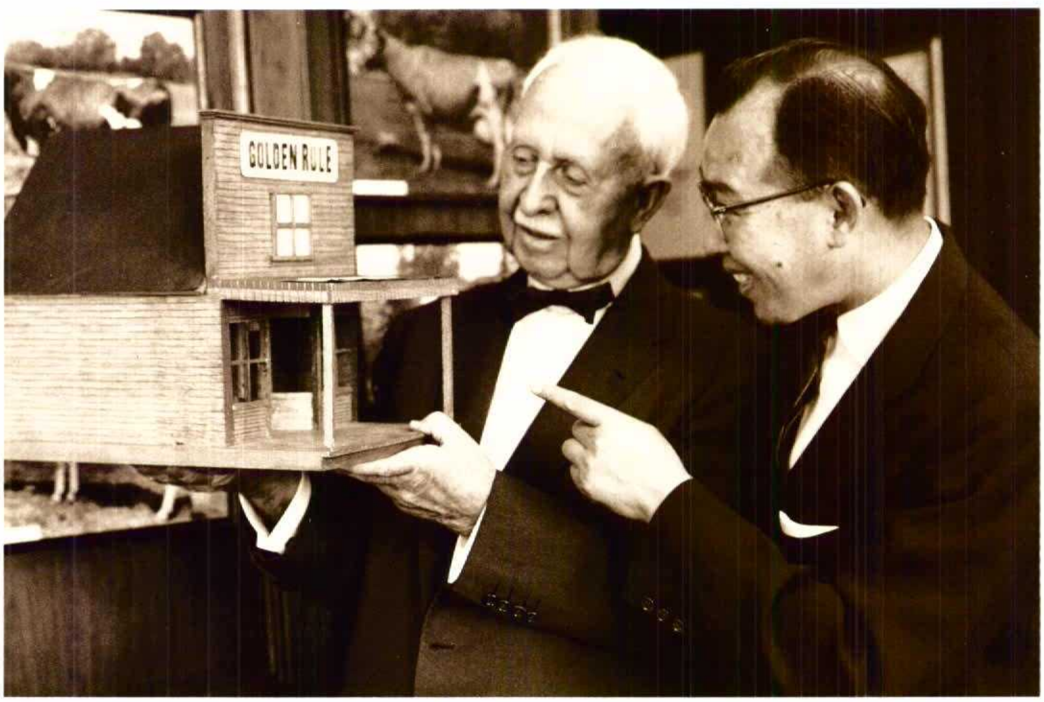
Turbocharging the replenishment process delivers impressive rewards in both customer service and profitability. In a partnership with a key men's supplier, JCPenney improved unit sales by 16 per cent and reduced on-hand inventory by 3 per cent. Stores receive merchandise in 18 days instead of a month. In women's hosiery, the Company's in-stock position with one vendor's merchandise rose to 98 per cent. Turnover increased 10 per cent, and we recorded double-digit sales gains — clear evidence that we had what the customer wanted when she wanted it.

Information technologies — including electronic data interchange, bar coding, and scanning — provide the horsepower that lets us respond quickly and accurately to ever-changing market conditions. But open communication and trust — in a word, partnership — shift the process into high gear.

JCPenney's list of supplier partners includes a growing number of minority-owned businesses. In 1993, we expanded the concept to include women-owned businesses. The Company began its Minority Supplier Development Program in 1972 and in 1993 did more than $500 million with approximately 1,900 suppliers.

"BUYING IT BETTER MEANS WORKING HONESTLY AND HARMONIOUSLY WITH MANUFACTURERS AND WHOLESALERS.... IN EVERY TRANSACTION, THERE MUST BE CONFIDENCE AND GOODWILL; FAIRNESS BUILDS MUTUAL RESPECT THAT CANNOT FAIL TO BENEFIT OUR BUYING JOB...."

James Cash Penney, 1956



James Cash Penney believed in working closely with suppliers. Above, he displays a model of his first store during a meeting with Yale Sakurai, Japanese importer/exporter.

John W. Aalfs, president of Aalfs Manufacturing, Inc. in Sioux City, Iowa, stands before the industrial-grade washing machine his company uses to wash merchandise for JCPenney's multidivisional brand, The Original Arizona Jean Company.® Aalfs, a key manufacturer for the brand, was named the Grand Award recipient in the retail category of the Company's fourth annual Supplier Recognition Awards. At the awards ceremony last May, W. Barger Tygart, senior executive vice president and director of merchandising and support operations, said, "JCPenney takes pride in the great partnerships that we have forged with suppliers who have provided outstanding quality and service."

In April 1993, we took our concept of partnership with suppliers one step further. In a first for the retail industry, JCPenney hosted a meeting of chief executive officers from 100 key suppliers, representing 43 per cent of our total merchandise sales volume. We discussed roadblocks, opportunities, and long-range objectives. Together, we planned new and better ways to serve the consumer. We shared a vision for stronger, more effective partnerships to come.

All our partnerships have one focal point—serving our customers. We study their needs through focus groups, demographic reports, and sales returns. We monitor product quality rigorously, setting the most stringent standards in the retailing industry. We search the U.S. and the globe for the right merchandise at the best price. Through our catalog business, we provide today's busy consumer with 24-hour shopping and fast delivery, as well as product offerings that expand and support our retail store selection.

We, and all our partners, put the customer first.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of operations (In millions except per share data)	**1993**	1992	1991
Retail sales, per cent increase (decrease)	**5.4**	11.2	(1.0)
Gross margin, per cent of retail sales[1]			
FIFO	**31.3**	31.5	30.9
LIFO	**31.5**	31.7	31.5
Selling, general, and administrative expenses, per cent of retail sales[1]	**23.7**	24.7	25.6
Pre-tax income of other businesses	**$ 149**	$ 125	$ 91
Effective income tax rate	**39.3**	38.3	43.5
Net income[2,3]	**$ 940**	$ 777	$ 80
Per share[2,3]	**$ 3.53**	$ 2.95	$ .20

[1]*Ratios for 1992 and 1991 reflect the reclassifications made to conform with 1993, as described on page 18.*
[2]*Excluding the effects of an extraordinary charge and the cumulative effect of an accounting change, after tax income was $944 million, or $3.55 per share, in 1993.*
[3]*Excluding the effects of nonrecurring items and the cumulative effect of an accounting change, after tax income was $528 million, or $2.00 per share, in 1991.*

Net income was $940 million in 1993, an increase of 20.9 per cent from $777 million in 1992. Fully diluted earnings per share improved to $3.53 per share from $2.95 per share in 1992. Net income in 1993 was reduced by an extraordinary charge, net of tax, of $55 million, or 21 cents per share, for the premium and unamortized issuing costs related to retired debt. Net income was increased by $51 million, or 19 cents per share, for the cumulative effect of implementing Financial Accounting Standards Board Statement No. 109, *Accounting for Income Taxes.* Excluding the impact of the extraordinary charge and the cumulative effect of the accounting change, net income was $944 million, or $3.55 per share. 1993 net income also included a charge of $14 million, or 5 cents per share, for the impact of the tax rate increase on deferred taxes. Increased sales volume in both stores and catalog, resulting from the Company's strategy of offering fashion, quality, and price to its customers, as well as an aggressive national advertising campaign, were largely responsible for the improvement. Contributing to increased profits were well managed selling, general, and administrative expenses. These expenses, as a per cent of retail sales, declined significantly in 1993.

Net income was $777 million in 1992, an increase of 47.2 per cent from $528 million in 1991, excluding the impact in 1991 of nonrecurring items and the cumulative effect of an accounting change. On a comparable basis, fully diluted earnings per share improved to $2.95 per share from $2.00 per share in 1991. Higher sales volume due to increased unit sales, resulting from the shift in the Company's strategy to more affordable pricing, was largely responsible for the improvement. Selling, general, and administrative expenses, as a per cent of retail sales, declined significantly in 1992.

Net income was $80 million in 1991 and fully diluted earnings per share was 20 cents. Net income in 1991 was reduced by a provision for nonrecurring items and the cumulative effect of an accounting change. Nonrecurring items in 1991 amounted to $395 million before income taxes, and reflected certain changes in strategy. The Company made a strategic business decision in 1991 to hold only regional shopping center joint ventures in its real estate investment portfolio and to dispose of all other projects as soon as practicable. As a result of this decision, a provision of $220 million was made to record the costs to dispose of the properties the Company planned to exit. Also, in 1991, a decision was made to downsize or discontinue several non-core retail operations. This decision reflected a change in business strategy to deemphasize experimental businesses and to focus on the Company's core business, resulting in a provision of $115 million. In addition, nonrecurring items included a provision of $60 million for the costs associated with consolidating and streamlining various Company activities. In 1993, the Company completed the disposition of all its non-regional shopping center properties, and continued to close unproductive stores and implement cost cutting measures. The restructuring was substantially complete at the end of 1993. In 1991, the Company adopted Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, that resulted in a one-time charge to earnings of $184 million, net of taxes, or 79 cents per share.

Excluding the effects of the nonrecurring items and the cumulative effect of the accounting change in 1991, income declined 8.5 per cent to $528 million from $577 million in 1990. The decline in 1991 was due to a 1.0 per cent decline in sales volume and an increase in the income tax rate. On a comparable basis, earnings per share declined from $2.16 in 1990 to $2.00 in 1991.

Revenue (In millions)	**1993**	Per cent increase (decrease)	1992	Per cent increase (decrease)	1991
JCPenney stores	**$14,056**	4.4	$13,460	12.1	$12,007
Catalog	**3,514**	11.0	3,166	5.5	3,002
Drug stores	**1,413**	2.2	1,383	16.0	1,192
Total retail sales*	**18,983**	5.4	18,009	11.2	16,201
JCPenney Insurance	**475**	22.5	388	18.3	328
JCPenney National Bank	**120**	2.0	118	(1.1)	119
Total revenue	**$19,578**	5.7	$18,515	11.2	$16,648

1993 and 1991 comprised 52 weeks, and 1992 comprised 53 weeks.

**On a comparable 52-week basis, total retail sales increased 6.9 per cent in 1993 and 9.8 per cent in 1992.*

Sales of all JCPenney stores in 1993 increased 4.4 per cent while comparable store sales increased 4.0 per cent. The sales gain was primarily the result of the Company's strategy of offering fashion and quality merchandise to its customers at competitive, affordable prices; a new national television advertising campaign; and the increased emphasis on developing its private brands. On a comparable 52 week basis, sales of JCPenney stores increased 5.8 per cent in 1993, and comparable store sales increased 5.3 per cent. JCPenney store sales increased approximately 6 per cent in each of the merchandise divisions (women's, men's, children's and family shoes, and home and leisure). Sales of all JCPenney stores, on a 52 week basis, increased 10.9 per cent in 1992, and comparable store sales increased 9.7 per cent.

Catalog sales increased 11.0 per cent in 1993 to a record $3,514 million. The results were impacted by significant growth in the number of new customers, gains from specialty catalogs, and improved synergy with JCPenney stores' merchandise mix. The Company's decision to accept the Discover Card in April 1993 contributed to 1993's growth in attracting new customers.

Drug store sales increased 2.2 per cent in 1993. On a comparable 52 week basis, drug store sales increased 4.2 per cent in 1993, primarily as a result of higher mail order pharmacy sales.

Gross margin on a FIFO basis, as a per cent of retail sales, declined in 1993 to 31.3 per cent from 31.5 per cent in 1992, due to a more promotional environment during the holiday season. This ratio increased in 1992 as compared with 1991 due to lower markdowns. The decline in this ratio in 1991 as compared with 1990 was due to increased markdowns in the first half of 1991.

In 1991, based on its strategy to lower retail prices, the Company elected to apply an internally developed LIFO index (rather than one prepared by the U.S. Government for all department stores) to measure more accurately increases and decreases in JCPenney retail prices. Because of the continued decline in retail prices, there was deflation in the Company's LIFO index in 1993, 1992, and in 1991. As a result, there was a LIFO credit of $36 million in 1993, as compared with a credit of $32 million in 1992 and a $91 million credit in 1991.

Gross margin on a LIFO basis, as a per cent of retail sales, was 31.5 per cent in 1993, as compared with 31.7 per cent in 1992 and 31.5 per cent in 1991.

SG&A expenses increased in 1993 by 1.4 per cent from 1992's level. As a per cent of sales, SG&A expenses declined in 1993 to 23.7 per cent from 24.7 per cent in 1992, reflecting the Company's continuing efforts to control costs across all operating and support areas.

SG&A expenses increased in 1992 by 7.0 per cent, reflecting higher salaries and personnel related costs resulting from increased sales volume and planned increases in advertising associated with a national television advertising campaign and increased distribution of circulars. SG&A expenses declined in 1991 by 3.1 per cent, reflecting the Company's efforts to reduce costs across all operating and support areas. In 1992, the SG&A expense ratio declined to 24.7 per cent from 25.6 per cent in 1991 and 26.2 per cent in 1990, as a result of higher sales volume and well managed expenses.

Net interest expense and credit costs (In millions)	**1993**	1992	1991
Finance charge revenue	**$ (523)**	$ (509)	$ (567)
Interest expense, net	**241**	258	308
Credit costs			
Bad debt expense	**95**	122	175
Operating expenses (including third party credit costs)	**260**	261	260
Net interest expense and credit costs	**$ 73**	$ 132	$ 176

Net interest expense and credit costs declined 44.7 per cent in 1993 to $73 million, primarily as a result of lower bad debt and interest expense. Interest expense declined as a result of the debt restructuring program (described on page 13) initiated by the Company to take advantage of declining interest rates. Net interest expense and credit costs was $132 million in 1992, a decline of 25.0 per cent from $176 million in 1991. The decline in 1992 was also due to lower bad debt and interest expense.

The effective income tax rate for 1993 was 39.3 per cent as compared with 38.3 per cent in 1992 and 43.5 per cent in 1991. The 1993 rate included a one-time, non-cash charge of $14 million for the revaluation of deferred taxes, as required by Statement No. 109, Accounting for Income Taxes. Excluding the adjustment for deferred taxes, the 1993 effective income tax rate was 38.3 per cent, which approximates the expected rate for 1994. The 1993 rate increased from 1992's rate due to the legislated Federal income tax rate increase from 34 per cent to 35 per cent. The 1993 rate was reduced by the tax effect of dividends on allocated leveraged employee stock ownership plan (LESOP) shares, in accordance with Statement No. 109. The 1992 effective income tax rate declined from 1991's rate primarily due to the $21 million charge to income tax expense in 1991 for prior years' tax audit adjustments.

Pre-tax income of other businesses (In millions)	**1993**	1992	1991
JCPenney Insurance	**$ 120**	$ 101	$ 78
JCPenney National Bank	**29**	24	13
Total	**$ 149**	$ 125	$ 91

JCPenney Insurance, which markets life, accident and health, and credit insurance, continued its growth trend which began in 1989. Pre-tax income was $120 million, an increase of $19 million or 19.3 per cent over 1992. This growth resulted from favorable trends in both premiums earned and lower loss ratios. Premium income for 1993 was $416 million, an increase of $83 million or 25 per cent over 1992. The growth in premium income resulted from an increase of 1.2 million policies, 25 per cent more than in 1992. Increases in renewal premiums of $59 million resulted from the increased sales over the past three years coupled with favorable policy retention. Pre-tax income was $101 million in 1992, an increase of 27.9 per cent over 1991, primarily due to increased premiums. During the past two years, JCPenney Insurance has expanded its market share through relationships with other credit card issuers in both the United States and Canada to solicit their customers. These relationships included 17 companies in the United States and three companies in Canada.

JCPenney National Bank offers Visa and MasterCard credit cards. At the end of the year, about 403 thousand credit cards were active. Pre-tax income improved in both 1993 and 1992, as a result of lower interest rates and a reduction in bad debt expense.

Financial position. The Company generated $286 million in cash from operating activities in 1993 as compared with $1,574 million in 1992 and $911 million in 1991. The change in 1993 was due to an increase in customer accounts receivable, particularly in the fourth quarter when the utilization of the JCPenney credit card increased to 47.5 per cent of sales from 46.6 per cent in 1992's comparable period. Additionally, $425 million of securitized accounts receivable were amortized. The primary contributions to increased cash flow in 1992 were higher net income and declines in customer accounts receivable.

Total customer receivables serviced by the Company were $4.4 billion at the end of 1993, $352 million or 8.8 per cent higher than the level at the end of 1992. The increase in customer receivables was due to the higher sales volume in 1993. In 1993, the Company established the JCPenney Card Bank, National Association, which issues JCPenney credit cards to customers in five states. The customer accounts receivable owned by the Card Bank are fully consolidated for reporting purposes in the total customer receivables serviced by the Company. Customer receivables serviced totaled $4.0 billion at the end of 1992, $411 million or 9.3 per cent below the level at the end of 1991. The decline in 1992 customer receivables serviced reflected a reduction in the utilization of the JCPenney credit card, increased usage of third party credit cards, as well as faster repayments by customers. Customer receivables serviced were $4.4 billion at the end of 1991, or 8.6 per cent below the level at the end of 1990.

Merchandise inventories, on a FIFO basis, increased to $3.8 billion in 1993, up 7.1 per cent from 1992 and are in line with recent sales volumes. FIFO inventories increased 10.2 per cent in 1992 and 4.9 per cent in 1991.

Net property, plant, and equipment, at $3.8 billion, was $63 million above the level of the preceding year. Cash requirements for capital expenditures in 1993 were $480 million, $26 million above 1992. Capital expenditures were $516 million in 1991. The Company presently expects capital expenditures of approximately $500 million in each of the next three years.

Investments, at $1.2 billion, increased $191 million in 1993, primarily due to growth in JCPenney Insurance investments.

Accounts payable and accrued expenses increased 5 per cent to $2.1 billion in 1993 primarily as a result of the increase in trade accounts payable due to the $287 million increase in merchandise inventories. Accounts payable and accrued expenses were $2.0 billion in 1992 and $1.6 billion in 1991.

During 1993, the Company continued a program to restructure its debt and securitized accounts receivable portfolio to take advantage of the lower interest rate environment. The program, which was initiated in 1992, restructured and refinanced $2.6 billion of high cost debt, including both on and off-balance-sheet debt, through various methods including calls, open market purchases, defeasance, and scheduled retirements. Additionally, in February 1994, $350 million of zero coupon notes yielding 13 per cent matured. The restructured debt was financed with operating cash flow and lower cost debt. The weighted average annual interest rate on the restructured and refinanced debt was 10 per cent. In connection with the program, the Company issued $1.25 billion of fixed rate debt in 1993 and 1992 with maturities of five, 10, and 30 years, with a weighted average annual interest rate of 6.1 per cent. As a result, the program will produce annual financing cost savings in excess of $120 million.

Total debt at year end 1993 included $379 million of borrowings by the LESOP, which is guaranteed by the Company. The source of funds to repay the LESOP debt will be dividends from the Series B preferred stock and cash contributions by the Company, totaling approximately $50 million semi-annually through July 1998.

Stockholders' equity was $5.4 billion at the end of 1993, an increase of $660 million from the previous year due primarily to the increase in net income.

On March 9, 1994, the Board of Directors declared an increase in the regular quarterly dividend to 42 cents per share, or an indicated annual rate of $1.68 per share. The regular quarterly dividend on the Company's outstanding stock was payable on May 1, 1994, to stockholders of record on April 8, 1994. The Board also approved on March 9, 1994, the purchase of up to 10 million shares of the Company's common stock to offset dilution caused by the issuance of common shares under the Company's equity compensation and benefit plans. The shares will be purchased from time to time on the open market or through privately negotiated transactions. On March 10, 1993, the Board of Directors declared a two-for-one split of the Company's common stock and increased the quarterly dividend to 36 cents per share from 33 cents per share, or an indicated annual rate of $1.44 compared with $1.32 per share in 1992.

The Company anticipates that the major portion of its cash requirements during the next few years to finance its operations, update its stores, and expand will continue to be generated internally from operations. The Company will continue to review all expenditures to maximize financial returns and maintain financial flexibility.

Impact of inflation and changing prices. The impact of inflation on the Company has lessened in recent years as the rate of inflation has declined. Inflation causes increases in the cost of doing business, including capital expenditures. The effect of rising costs cannot always be passed along to customers by adjusting prices because of competitive conditions. By striving to control costs, the Company attempts to minimize the effects of inflation on its operations.

Independent Auditors' Report

To the Stockholders and Board of Directors of J.C. Penney Company, Inc.:

We have audited the accompanying consolidated balance sheets of J.C. Penney Company, Inc. and Subsidiaries as of January 29, 1994, January 30, 1993, and January 25, 1992, and the related consolidated statements of income, reinvested earnings, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J.C. Penney Company, Inc. and Subsidiaries as of January 29, 1994, January 30, 1993, and January 25, 1992, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed on page 25, the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, in 1991. Also, as discussed on page 27, the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, in 1993.

KPMG Peat Marwick

KPMG Peat Marwick
200 Crescent Court, Dallas, Texas 75201
February 24, 1994

Company Statement on Financial Information

The Company is responsible for the information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and are considered to present fairly in all material respects the Company's results of operations, financial position, and cash flows. Certain amounts included in the consolidated financial statements are estimated based on currently available information and judgment of the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company's system of internal controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable costs, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated, and where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The consolidated financial statements have been audited by independent auditors whose report appears above. This audit was conducted in accordance with generally accepted auditing standards, which includes the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee's responsibilities include recommending to the Board for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The Committee also reviews the audit plans, scope, fees, and audit results of the auditors; internal audit reports on the adequacy of internal controls; non-audit services and related fees; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings. Company personnel, including internal auditors, meet periodically with the Audit Committee to discuss auditing and financial reporting matters.

William R. Howell	Robert E. Northam
Chairman of the Board	Executive Vice President
and Chief Executive Officer	and Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

(In millions except per share data)

J.C. Penney Company, Inc. and Subsidiaries

For the Year	1993	1992	1991
Revenue			
Retail sales	**$ 18,983**	$ 18,009	$ 16,201
Other revenue	**595**	506	447
Total revenue	**19,578**	18,515	16,648
Costs and expenses			
Cost of goods sold, occupancy, buying, and warehousing costs	**12,997**	12,297	11,099
Selling, general, and administrative expenses	**4,508**	4,446	4,154
Costs and expenses of other businesses	**446**	381	356
Net interest expense and credit costs	**73**	132	176
Nonrecurring items	**—**	—	395
Total costs and expenses	**18,024**	17,256	16,180
Income before income taxes, extraordinary charge, and cumulative effect of accounting changes	**1,554**	1,259	468
Income taxes	**610**	482	204
Income before extraordinary charge and cumulative effect of accounting changes	**944**	777	264
Extraordinary charge on debt redemption, net of income taxes of $35	**(55)**	—	—
Cumulative effect of accounting change for income taxes	**51**	—	—
Cumulative effect of accounting change for postretirement health care benefits, net of income taxes of $116	**—**	—	(184)
Net income	**$ 940**	$ 777	$ 80
Earnings per common share			
Primary			
Income before extraordinary charge and cumulative effect of accounting changes	**$ 3.79**	$ 3.15	$ .99
Extraordinary charge on debt redemption, net	**(.23)**	—	—
Cumulative effect of accounting change for income taxes	**.21**	—	—
Cumulative effect of accounting change for postretirement health care benefits	**—**	—	(.79)
Net income	**$ 3.77**	$ 3.15	$ .20
Fully diluted			
Income before extraordinary charge and cumulative effect of accounting changes	**$ 3.55**	$ 2.95	$ .99
Extraordinary charge on debt redemption, net	**(.21)**	—	—
Cumulative effect of accounting change for income taxes	**.19**	—	—
Cumulative effect of accounting change for postretirement health care benefits	**—**	—	(.79)
Net income	**$ 3.53**	$ 2.95	$ .20

See Notes to Consolidated Financial Statements on pages 18 through 29.

CONSOLIDATED BALANCE SHEETS

(In millions except share data)
J.C. Penney Company, Inc. and Subsidiaries

Assets	1993	1992	1991
Current assets			
Cash and short term investments of $156, $405, and $126	$ 173	$ 426	$ 137
Receivables, net	4,679	3,750	4,131
Merchandise inventories	3,545	3,258	2,897
Prepaid expenses	168	157	163
Total current assets	8,565	7,591	7,328
Properties, net	3,818	3,755	3,633
Investments	1,182	991	442
Deferred insurance policy acquisition costs	426	372	313
Other assets	797	758	728
	$ 14,788	$ 13,467	$ 12,444

Liabilities and Stockholders' Equity	1993	1992	1991
Current liabilities			
Accounts payable and accrued expenses	$ 2,139	$ 2,038	$ 1,565
Short term debt	1,284	907	471
Current maturities of long term debt	348	—	237
Deferred taxes	112	64	60
Total current liabilities	3,883	3,009	2,333
Long term debt	2,929	3,171	3,354
Deferred taxes	1,013	1,012	968
Bank deposits	581	538	530
Insurance policy and claims reserves	540	462	353
Other liabilities	477	570	718
Stockholders' equity			
Preferred stock, without par value: Authorized, 25 million shares — issued, 1 million shares of Series B LESOP convertible preferred	648	666	684
Guaranteed LESOP obligation	(379)	(447)	(509)
Common stock, par value 50¢: Authorized, 500 million shares — issued, 236, 235, and 233 million shares	1,003	955	857
Reinvested earnings	4,093	3,531	3,156
Total stockholders' equity	5,365	4,705	4,188
	$ 14,788	$ 13,467	$ 12,444

See Notes to Consolidated Financial Statements on pages 18 through 29.

CONSOLIDATED STATEMENTS OF REINVESTED EARNINGS

(In millions)

	1993	1992	1991
Reinvested earnings at beginning of year	$ 3,531	$ 3,156	$ 3,413
Net income	940	777	80
Unrealized change in equity securities	1	(1)	5
Two-for-one stock split	—	(59)	—
Common stock dividends declared	(339)	(309)	(308)
Preferred stock dividends declared, net of taxes	(40)	(33)	(34)
Reinvested earnings at end of year	$ 4,093	$ 3,531	$ 3,156

See Notes to Consolidated Financial Statements on pages 18 through 29.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

J.C. Penney Company, Inc. and Subsidiaries

For the Year	1993	1992	1991
Operating activities			
Net income	**$ 940**	$ 777	$ 80
Extraordinary charge, net of income taxes	**55**	—	—
Cumulative effect of accounting change for income taxes	**(51)**	—	—
Nonrecurring items and cumulative effect of accounting change	**—**	—	695
Deferred tax effects	**—**	—	(268)
Depreciation and amortization	**316**	310	316
Amortization of original issue discount	**48**	58	53
Deferred taxes	**100**	48	109
Change in cash from:			
Customer receivables	**(352)**	411	413
Securitized customer receivables amortized	**(425)**	(36)	(214)
Inventories, net of trade payables	**(196)**	(27)	(293)
Other assets and liabilities, net	**(149)**	33	20
	286	1,574	911
Investing activities			
Capital expenditures	**(480)**	(454)	(516)
Investment in asset-backed certificates	**(12)**	(419)	—
Purchases of investment securities	**(351)**	(325)	(169)
Proceeds from sales of investment securities	**215**	195	149
	(628)	(1,003)	(536)
Financing activities			
Increase (decrease) in short term debt	**377**	436	(433)
Issuance of long term debt	**1,015**	280	500
Payments of long term debt	**(875)**	(677)	(104)
Premium on debt retirement	**(76)**	—	—
Common stock issued, net	**37**	39	7
Preferred stock retired	**(18)**	(18)	(13)
Dividends paid, preferred and common	**(371)**	(342)	(342)
	89	(282)	(385)
Net increase (decrease) in cash and short term investments	**(253)**	289	(10)
Cash and short term investments at beginning of year	**426**	137	147
Cash and short term investments at end of year	**$ 173**	$ 426	$ 137
Supplemental cash flow information			
Interest paid	**$ 253**	$ 265	$ 267
Interest received	**$ 51**	$ 71	$ 22
Income taxes paid	**$ 486**	$ 322	$ 259

See Notes to Consolidated Financial Statements on pages 18 through 29.

SUMMARY OF ACCOUNTING POLICIES

Reclassifications. Certain amounts for prior years have been reclassified in the Consolidated Statements of Income to conform with the classifications used in 1993. Previously, these amounts were included in "Selling, general, and administrative expenses," "Interest expense, net," "Finance charge revenue," and "Costs and expenses of other businesses." The "Net interest expense and credit costs" caption in the Consolidated Statements of Income includes net interest expense, finance charge revenue, and credit operating costs, including bad debt expense. These reclassifications had no effect on net income. In the Consolidated Balance Sheets, the assets and liabilities of JCPenney Insurance, JCPenney National Bank, and JCP Realty, Inc., which were included in "Other assets" and "Other liabilities," respectively, in prior years, have been fully consolidated. All prior year data throughout this report has been restated to conform with the classifications used in 1993.

Basis of consolidation. The consolidated financial statements present the results of J.C. Penney Company, Inc. and all of its wholly-owned and majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Definition of fiscal year. The Company's fiscal year ends on the last Saturday in January. Fiscal year 1993 ended January 29, 1994, 1992 ended January 30, 1993, and 1991 ended January 25, 1992. They comprised 52 weeks, 53 weeks, and 52 weeks, respectively. The accounts of JCPenney Insurance and JCPenney National Bank are on a calendar year basis.

Retail sales. Retail sales include merchandise and services, net of returns, and exclude sales taxes.

Earnings per common share. Primary earnings per share are computed by dividing net income less dividend requirements on the Series B LESOP convertible preferred stock, net of tax, by the weighted average common stock and common stock equivalents outstanding. Fully diluted earnings per share also assume conversion of the Series B LESOP convertible preferred stock into the Company's common stock. Additionally, it assumes adjustment of net income for the additional cash requirements, net of tax, needed to fund the LESOP debt service resulting from the assumed replacement of the preferred dividends with common stock dividends. The number of shares used in the computation of fully diluted earnings per share was 261 million in 1993, 258 million in 1992, and 234 million in 1991.

Cash and short term investments. Cash invested in instruments with remaining maturities of three months or less from time of investment is reflected as short term investments. The carrying value of these instruments approximates market value due to their short maturities.

Merchandise inventories. Substantially all merchandise inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method.

Depreciation. The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. The principal annual rates of depreciation are 2 per cent for buildings, 5 per cent for warehouse fixtures and equipment, 10 per cent for selling fixtures and equipment, and 20 per cent for data center equipment. Improvements to leased premises are amortized on a straight line basis over the expected term of the lease or their estimated useful lives, whichever is shorter.

Deferred charges. Expenses associated with the opening of new stores are written off in the year of the store opening, except those of stores opened in January, which are written off in the following fiscal year. Deferred policy acquisition costs, principally marketing costs and commissions incurred by JCPenney Insurance to secure new insurance policies, are amortized over the expected premium-paying period of the related policies.

Investments. Fixed income investments (principally bonds), held by JCPenney Insurance, are carried at amortized cost. Marketable equity securities are carried at market value. Investments also include JCP Receivables, Inc. asset-backed certificates held by the Company, which are carried at amortized cost.

Insurance policy and claims reserves. Liabilities established by JCPenney Insurance for future policy benefits are computed using a net level premium method including assumptions as to investment yields, mortality, morbidity, and persistency based on the Company's experience. Liabilities for unpaid claims are charged to expense in the period that the claims are incurred.

Advertising. Costs for newspaper, television, radio, and other media are expensed as incurred, and were $523 million in 1993, $503 million in 1992, and $398 million in 1991. Direct response advertising consists primarily of catalog preparation and printing costs, which are charged to expense over the period during which the benefits of the catalogs are expected, not to exceed six months. Catalog advertising reported in prepaid expense on the balance sheet was $88 million at the end of 1993, as compared with $79 million and $81 million at the end of 1992 and 1991, respectively.

Finance charge revenue and bad debt expense, on customer accounts receivable owned by the Company, are included in the "Net interest expense and credit costs" line of the Consolidated Statements of Income. Finance charge revenue was $523 million in 1993, $509 million in 1992, and $567 million in 1991. Bad debt expense was $95 million in 1993, $122 million in 1992, and $175 million in 1991.

Nonrecurring items amounted to $395 million in 1991, and included recognition of the costs to dispose of certain real estate properties, the write-off of investments in several experimental businesses, and costs associated with consolidating and streamlining various Company activities. There were no nonrecurring items in 1993 or 1992.

RECENT ACCOUNTING STANDARDS

Income taxes. The Financial Accounting Standards Board issued Statement No. 109, Accounting for Income Taxes, in February 1992. This statement requires an asset and liability approach to accounting for differences between the tax basis of an asset or liability and its reported amount in the financial statements. Previously, the Company accounted for income taxes under APB Opinion No. 11. The Company adopted Statement No. 109 effective January 31, 1993, and recorded a $51 million cumulative adjustment, reducing deferred taxes on the balance sheet, and increasing net income by the same amount.

Postemployment benefits. The Financial Accounting Standards Board issued Statement No. 112, Employers' Accounting for Postemployment Benefits, in November 1992. This statement, which is required to be adopted in 1994, requires employers to recognize the obligation to provide postemployment benefits on an accrual basis if certain conditions are met. The impact on the Company of adopting this standard is expected to be immaterial.

Debt and equity securities. The Financial Accounting Standards Board issued Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* in May 1993. This statement, which is required to be adopted in 1994 and reflected prospectively, requires that, except for debt securities classified as "held to maturity," investments in debt and equity securities be reported at fair value. Changes in unrealized gains and losses for securities classified as "available for sale" are recorded directly to stockholders' equity, net of applicable income taxes. Had this statement been adopted at year end 1993, assets and deferred taxes on the balance sheet would be increased $119 million and $45 million, respectively, and stockholders' equity would be increased $74 million, with no change in net income.

Advertising. The American Institute of Certified Public Accountants issued Statement of Position No. 93-7, *Reporting on Advertising Costs,* in December 1993. This SOP, which is effective in 1994, requires that all advertising costs be expensed as incurred or the first time the advertising takes place, except for direct response advertising, which can be capitalized and written off over the period during which the benefits are expected. The Company's reporting of advertising costs is in conformance with the provisions of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Receivables (In millions)	**1993**	1992	1991
Customer receivables serviced	**$ 4,410**	$ 4,068	$ 4,489
Customer receivables sold	**725**	1,150	1,186
Customer receivables owned	**3,685**	2,918	3,303
Less allowance for doubtful accounts	**59**	69	79
Customer receivables, net	**3,626**	2,849	3,224
JCPenney National Bank receivables	**587**	538	539
Other receivables	**466**	363	368
Receivables, net	**$ 4,679**	$ 3,750	$ 4,131

The Company believes that the carrying value of existing customer and bank receivables is the best estimate of fair value because of their short average maturity and bad debt losses can be reasonably estimated and have been reserved.

The Company's policy is to write off accounts when the scheduled minimum payment has not been received for six consecutive months, if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses. Concentrations of credit risk with respect to customer receivables are limited due to the large number of customers comprising the Company's credit card base and their dispersion across the country.

During the period 1988 to 1990, the Company transferred portions of its customer receivables to a trust which, in turn, sold certificates representing undivided interests in the trust in public offerings. Certificates sold during this period totaled $1,400 million. No gain or loss was recognized at the date of sale. The $250 million of certificates sold in 1988 were completely amortized by the end of 1992. Of the $800 million certificates sold in 1990, $425 million were amortized in 1993. As of January 29, 1994, $725 million of the certificates were outstanding and the balance of the receivables in the trust was $1,642 million. The Company owns the remaining undivided interest in the trust not represented by the certificates and will continue to service all receivables for the trust.

In 1993 and 1992, the Company purchased $12 million and $419 million, respectively, of its asset-backed certificates in the open market. The fair value of this total investment of $431 million at the end of 1993 was $510 million based upon quoted market value. The fair value of the $419 million investment at the end of 1992 was $465 million.

Cash flows generated from receivables in the trust are dedicated to payment of interest on the certificates (fixed rates ranging from 8.70% to 9.625%), absorption of defaulted accounts in the trust, and payment of servicing fees to the Company. The reserve funds are fully funded ($112 million at January 29, 1994). Reserves are available if cash flows from the receivables become insufficient to make such payments. None of the reserve funds has been utilized as of January 29, 1994. Additionally, the Company has made available to the trust irrevocable letters of credit of $138 million that may be drawn upon should the reserve funds be exhausted. None of the letters of credit was in use as of January 29, 1994.

In connection with the sale of $375 million of certificates in 1990, the Company entered into two offsetting interest rate swap agreements with a commercial bank, each having a notional principal amount of $375 million. Because these interest rate swap agreements are offsetting, their net fair value at the end of 1993 and 1992 was zero. Currently, the Company has no interest rate exposure from these offsetting interest rate swap agreements which terminate when all certificates have been settled in the year 2000. Under one swap the Company receives a fixed rate and pays a floating rate while under the second swap, the Company pays a fixed rate and receives a floating rate. Because of the offsetting nature of these swaps, there is no financial statement impact. The credit risk has been minimized by the selection of a high credit quality commercial bank as counter party. As long as the Company holds both swap positions, there is effectively no credit risk since there is no net exchange of cash flows.

Merchandise inventories (In millions)	**1993**	1992	1991
Merchandise inventories, at lower of cost (FIFO) or market	**$ 3,791**	$ 3,540	$ 3,211
LIFO reserve	**(246)**	(282)	(314)
Merchandise inventories, at LIFO cost	**$ 3,545**	$ 3,258	$ 2,897

Substantially all of the Company's inventories are measured using the last-in, first-out (LIFO) method of inventory valuation. Since 1991, the Company has applied internally developed indices that more accurately measure increases and decreases in its own retail prices. From 1974 through 1990, the Company used the Bureau of Labor Statistics price indices applied against inventory selling values to arrive at an inventory valuation. The cumulative effect of this change on reinvested earnings at the beginning of 1991 was not determinable. However, the effect of using the internal indices instead of the Bureau of Labor Statistics price indices at the end of 1991 was to increase net income by approximately $100 million, or 39 cents per share.

Properties (In millions)	**1993**	1992	1991
Land	**$ 213**	$ 212	$ 205
Buildings			
Owned	**2,119**	2,016	1,838
Capital leases	**219**	237	244
Fixtures and equipment	**2,693**	2,703	2,649
Leasehold improvements	**575**	544	569
	5,819	5,712	5,505
Less accumulated depreciation and amortization	**2,001**	1,957	1,872
Properties, net	**$ 3,818**	$ 3,755	$ 3,633

At January 29,1994, the Company owned 245 retail stores, four catalog distribution centers, one store distribution center, its home office facility, and the insurance company corporate office building.

Capital expenditures (In millions)	**1993**	1992	1991
Land	**$ 1**	$ 8	$ 7
Buildings	**119**	189	209
Fixtures and equipment	**276**	270	238
Leasehold improvements	**63**	27	52
Total capital expenditures	**$ 459**	$ 494	$ 506

Expenditures for existing stores, primarily modernizations and updates, were $130 million in 1993, as compared with $76 million in 1992 and $134 million in 1991. Expenditures for new stores opened in 1993, 1992, and 1991 were $162 million, $130 million, and $172 million, respectively.

Investments at year end 1993 totalled $1,182 million, and consisted of fixed income securities and asset-backed certificates carried at amortized cost (shown in the table below) and equity securities carried at market value. The market value of investments is based on quoted market prices.

Equity securities were $80 million (cost, $71 million) at year end 1993, $29 million (cost, $22 million) at the end of 1992, and $27 million (cost, $18 million) at the end of 1991. Gross unrealized gains and losses at year end 1993 were $10 million and $1 million, respectively. Net unrealized investment gains on equity securities included in stockholders' equity were $6 million, net of deferred income taxes of $3 million.

The market values of investments carried at amortized cost were as follows:

	1993		1992		1991	
Investments (In millions)	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
U.S. Government obligations	**$ 139**	**$ 153**	$ 138	$ 142	$ 48	$ 52
Corporate securities	**280**	**302**	210	224	193	210
Mortgage-backed securities	**158**	**164**	148	159	140	154
Asset-backed certificates	**431**	**510**	419	465	—	—
Other	**94**	**92**	47	45	34	35
Total	**$ 1,102**	**$ 1,221**	$ 962	$1,035	$ 415	$ 451

Gross unrealized gains and losses were $125 million and $6 million, respectively, at year end 1993.

Investments carried at amortized cost had scheduled maturities at year end 1993, as follows:

(In millions)	Amortized Cost	Market Value
Due in one year or less	$ 12	$ 12
Due after one year through five years	147	153
Due after five years through ten years	567	657
Due after ten years	201	218
	$ 927	$1,040
Mortgage-backed securities	158	164
Other	17	17
Total	$1,102	$1,221

Net realized investment gains are included in "Other revenue" on the Consolidated Statements of Income. These gains were $14 million in 1993, $12 million in 1992, and $5 million in 1991.

The Company limits the credit risk by diversifying its investments by industry and geographic region.

Accounts payable and accrued expenses (In millions)	**1993**	1992	1991
Trade payables	**$ 1,034**	$ 944	$ 610
Accrued salaries, vacations, profit-sharing, and bonuses	**311**	308	256
Taxes, including income taxes	**234**	238	209
Workers' compensation and public liability insurance	**126**	116	112
Common dividend payable	**85**	77	77
Other	**349**	355	301
Total	**$ 2,139**	$ 2,038	$ 1,565

Short term debt (In millions)	**1993**	1992	1991
Commercial paper	**$ 1,284**	$ 887	$ 414
Master notes and other	**—**	20	57
Short term debt	**$ 1,284**	$ 907	$ 471
Average short term debt outstanding	**$ 1,350**	$ 1,154	$ 754
Peak outstanding	**$ 2,327**	$ 1,675	$ 1,489
Average interest rates	**3.2%**	3.7%	5.6%

Long term debt (In millions)	**1993**	1992	1991
Original issue discount			
Zero coupon notes and 6% debentures, due 1992 to 1994 and 2006, $700 at maturity, yields 13.5% to 15.1%, effective rates 12.5% to 13.2%	**$ 101**	$ 401	$ 359
Debentures and notes			
5.375% to 7.125%, due 1998 to 2023	**1,000**	—	—
8.25% to 8.875%, due 1992 to 2022	**250**	366	269
9% to 10%, due 1992 to 2021	**1,000**	1,750	2,007
Guaranteed LESOP notes, 8.17%, due 1998*	**379**	447	509
Present value of commitments under capital leases	**127**	141	160
Other	**72**	66	50
Long term debt	**$ 2,929**	$ 3,171	$ 3,354
Average long term debt outstanding	**$ 2,471**	$ 2,683	$ 2,827
Average interest rates	**9.9%**	10.5%	10.2%

For further discussion, see LESOP on page 26.

The fair value for long term debt at the end of 1993 and 1992, excluding capital leases, exceeded the recorded amount by $219 million and $265 million, respectively. The fair value of these instruments was determined based on the interest rate environment and the Company's credit rating.

The Company has in place interest rate swap contracts that were entered into shortly after the issuance of $250 million aggregate principal amount of 8.25 per cent sinking fund debentures in August 1992. These are four year agreements with a notional principal amount totalling $250 million. Under the swap agreements, the Company receives a fixed rate payment and disburses a floating rate payment. The counter parties to these contracts are high credit quality commercial banks. Consequently, credit risk, which is inherent in all swaps, has been minimized to a large extent. The accounting treatment for these contracts, which serve to hedge the 8.25 per cent debentures, is to record the net interest received or paid as an adjustment to interest expense on a current basis. Gains or losses resulting from market movements are not recognized. The fair value of these interest rate swaps at the end of 1993 and 1992 was $13 million and $4 million, respectively.

Changes in long term debt (In millions)	**1993**	1992	1991
Increases			
5.375% to 9.75% notes, due 1997 to 2023	**$ 1,000**	$ 250	$ 500
Amortization of original issue discount	**48**	43	53
Other	**16**	30	5
	1,064	323	558
Decreases			
Transfers to current maturities of long term debt	**348**	—	237
8.375% to 12.75% debentures, bonds, and notes, due 1995 to 2021, retired in 1992 and 1993.	**872**	423	—
Other, including LESOP amortization	**86**	83	102
	1,306	506	339
Net increase (decrease) in long term debt	**$ (242)**	$ (183)	$ 219

Maturities of long term debt (In millions)	Long term debt	Capital leases
1994	$ 352	$ 24
1995	2	18
1996	6	19
1997	257	15
1998	587	16
1999 to 2003	821	53
Thereafter	845	19
Total	$ 2,870	164
Less future interest and executory expenses		37
Present value		$ 127

Committed bank credit facilities available to the Company as of January 29, 1994, amounted to $1.25 billion. In 1993, the Company entered into two syndicated revolving credit facility agreements. These facilities include a $450 million, one-year revolver and an $800 million, five-year revolver with a group of 39 domestic and international banks. These facilities, which replaced the $500 million confirmed lines of credit and the $750 million International Revolving Credit Facility, support commercial paper borrowing arrangements. Neither of the borrowing facilities was in use as of January 29, 1994.

Preferred stock. In 1988, a leveraged employee stock ownership plan (LESOP) was adopted (see page 26 for further discussion). The LESOP purchased approximately 1.2 million shares of a new issue of Series B convertible preferred stock from the Company. These shares are convertible into shares of the Company's common stock at a conversion rate equivalent to 20 shares of common stock for each share of preferred stock. The conversion price is $30.00 per common share. The convertible preferred stock may be redeemed at the option of the Company or the LESOP, under certain limited circumstances. The redemption price may be satisfied in cash or common stock or a combination of both at the Company's sole discretion. The dividends are cumulative, are payable semi-annually on January 1 and July 1, and yield 7.9 per cent. The convertible preferred stock issued to the LESOP has been recorded in the stockholders' equity section of the consolidated balance sheet, and the "Guaranteed LESOP obligation," representing borrowings by the LESOP, has been recorded as a reduction of stockholders' equity.

The preferred dividend is payable semi-annually at an annual rate of $2.37 per common equivalent share. Preferred dividends declared were $52 million in 1993, $53 million in 1992, and $54 million in 1991; on an after tax basis, the dividends amounted to $31 million in 1993, $33 million in 1992, and $34 million in 1991.

In 1990, the Board of Directors declared a dividend distribution of one new preferred stock purchase right on each outstanding share of common stock and authorized the redemption of the old preferred stock purchase rights for five cents per share totalling $12 million. The preferred stock purchase rights, in accordance with the rights agreement, entitle the purchase, for each right held, of 1/400 of a share of Series A junior participating preferred stock at a price of $140. The rights are exercisable upon the occurrence of certain events and are redeemable by the Company under certain circumstances, all as described in the rights agreement.

Common stock. On March 9, 1994, the Board of Directors increased the quarterly common dividend to 42 cents per share, or an indicated annual rate of $1.68 per share. The regular quarterly dividend on the Company's outstanding common stock was payable on May 1, 1994, to stockholders of record on April 8, 1994. The Board of Directors also approved on March 9, 1994, the purchase of up to 10 million shares of the Company's common stock to offset dilution caused by the issuance of common shares under the Company's equity compensation and benefit plans. The shares will be purchased from time to time on the open market or through privately negotiated transactions.

The quarterly common dividend was 36 cents per share in 1993, and 33 cents per share in 1992 and 1991, or an indicated annual rate of $1.44 per share in 1993, and $1.32 per share in 1992 and 1991. Common dividends declared were $339 million in 1993, $309 million in 1992, and $308 million in 1991.

On March 10, 1993, the Board of Directors declared a two-for-one stock split in the form of a stock dividend, which was payable May 1, 1993, to stockholders of record on April 12, 1993.

The Company will request stockholder approval at its May 20, 1994 Annual Meeting of Stockholders to increase the authorized number of shares of common stock from 500 million to 1.25 billion shares.

Changes in outstanding common stock	Shares (In thousands) **1993**	1992	1991	Amounts (In millions) **1993**	1992	1991
Balance at beginning of year	**234,778**	233,302	233,122	**$ 955**	$ 857	$ 850
Two-for-one stock split	—	—	—	—	59	—
Common stock issued	**1,308**	1,476	180	**48**	39	7
Balance at end of year	**236,086**	234,778	233,302	**$1,003**	$ 955	$ 857

There were approximately 53,000 stockholders of record at year end 1993. In addition, the Company's savings plans, including the LESOP, had 111,000 participants and held 36.1 million shares of the Company's common stock. The savings plans also held 1.1 million shares of preferred stock, convertible into 21.6 million shares of common stock. On a combined basis, these plans held approximately 22 per cent of the Company's common shares after giving effect to the conversion of the preferred stock at the end of fiscal year 1993.

1993 Equity Compensation Plan and 1993 Non-Associate Directors' Equity Plan. In May 1993, stockholders approved the 1993 Equity Compensation Plan (1993 Plan), which replaced the expiring 1989 Equity Compensation Plan. Under the 1993 Plan, 11.6 million shares of common stock were reserved for issuance upon the exercise of options and stock appreciation rights and for the payment of stock awards over the five-year term of the 1993 Plan. No discount options nor tax benefit rights may be issued under the 1993 Plan. Participants in the 1993 Plan are generally to be selected management associates of the Company and its subsidiaries and affiliates as determined by the committee administering the 1993 Plan. It is anticipated that approximately 2,000 associates will be eligible to participate. No awards may be made under the 1993 Plan after May 31, 1998. In May 1993, stockholders also approved the 1993 Non-Associate Directors' Equity Plan (Directors' Plan). Under the Directors' Plan, 90,000 shares of common stock were reserved for issuance upon the exercise of stock options and the payment of stock awards over the five-year term of the Directors' Plan. Each director who is presently not an active employee of the Company will automatically be granted annually an option to purchase 800 shares, in tandem with an award of 200 restricted shares of common stock. An initial grant/award in this same amount will also automatically be granted to each new Non-Associate Director upon his or her first being elected as a director. Such stock options will become exercisable six months from the date of grant, but shares acquired upon such exercise will not be transferable until a director terminates service.

	1993		1992		1991	
Stock options	Shares (In thousands)	Weighted average option price	Shares (In thousands)	Weighted average option price	Shares (In thousands)	Weighted average option price
Balance at beginning of year	**8,844**	**$ 27.42**	9,490	$ 26.31	3,820	$ 24.11
Granted	**159**	**41.24**	574	35.10	6,048	27.29
Exercised	**(752)**	**24.49**	(974)	21.02	(206)	12.85
Expired and cancelled	**(16)**	**26.89**	(246)	27.66	(172)	28.20
Balance at end of year	**8,235**	**$ 27.96**	8,844	$ 27.42	9,490	$ 26.31

At year end 1993, options covering 2.2 million shares were exercisable and 11.6 million shares were reserved for future grants.

Interest expense (In millions)	**1993**	1992	1991
Short term debt	**$ 43**	$ 43	$ 42
Long term debt	**246**	281	288
Income on short term investments	**(14)**	(48)	(19)
Interest capitalized	**(4)**	(14)	(12)
Other, net*	**(30)**	(4)	9
Interest expense, net	**$ 241**	$ 258	$ 308

**1993 and 1992 include $34 million and $28 million, respectively, of interest income from the Company's investment in asset-backed certificates.*

Rent expense (In millions)	**1993**	1992	1991
Minimum rent on noncancelable operating leases	**$ 236**	$ 244	$ 251
Rent based on sales	**37**	35	33
Minimum rent on cancelable personal property leases	**92**	107	91
Real estate taxes and common area costs	**145**	134	120
Total	**$ 510**	$ 520	$ 495

The Company conducts the major part of its operations from leased premises which include retail stores, distribution centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 20 years; however, most leases will be renewed or replaced by leases on other premises.

Minimum annual rents under noncancelable operating leases and subleases (In millions)	Gross rents	Net rents*
1994	$ 247	$ 173
1995	232	163
1996	217	152
1997	197	141
1998	184	125
Thereafter	973	718
Total	$ 2,050	$ 1,472
Present value		$ 900
Weighted average interest rate		10%

Rents are shown net of their estimated executory costs, which are principally real estate taxes, maintenance, and insurance.

Retirement plans (In millions)	**1993**	1992	1991
Pension			
Service cost	**$ 50**	$ 46	$ 37
Interest cost	**123**	122	114
Actual (return) loss on assets	**(236)**	(90)	(332)
Net amortization and deferral	**59**	(90)	180
Pension credit	**(4)**	(12)	(1)
Postretirement health care			
Service cost	**3**	6	5
Interest cost	**24**	27	26
Total	**27**	33	31
LESOP expense	**50**	49	48
Total retirement plans	**$ 73**	$ 70	$ 78

Pension plan. JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months and have attained 21 years of age. In addition, the Company has an unfunded, noncontributory, supplemental retirement program for certain management employees. In general, benefits payable under the principal pension plan are determined by reference to a participant's final average earnings and years of credited service up to 35 years.

In 1993, the Company lowered its discount rate to 7.25 per cent due to the continuation of a lower interest rate environment. The discount rate was also lowered in 1992 to 8 per cent from 9 per cent in 1991. In 1992, the salary progression rate was reduced from 6 per cent to 4 per cent because of lower inflation. The impact of these changes increased the Company's obligation at year end 1993 and 1992. Accordingly, the Company made a cash contribution of $65 million to the plan in 1993 and expects to make a cash contribution to the plan in 1994. The 1993 contribution was the first since 1983.

Postretirement health care benefits. The Company's retiree health care plan (Retiree Plan) covers medical and dental services and eligibility for benefits is based on age and years of service. The Retiree Plan is contributory and the amounts paid by retired employees have increased in recent years and are expected to continue to do so. For certain groups of employees, Company contributions toward the cost of retiree coverage will be based on a fixed dollar amount which will vary with years of service, age, and dependent coverage. The Retiree Plan is funded on a pay-as-you-go basis by the Company and retiree contributions. The Company adopted the Financial Accounting Standards Board Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, for its Retiree Plan in 1991.

In 1993 and 1992, the Company modified several postretirement health care assumptions. The discount rate was lowered from 8 per cent to 7.25 per cent in 1993 and from 9 per cent to 8 per cent in 1992. The health care trend rate was lowered from 12 per cent to 10 per cent for 1994 with gradual reductions to 6 per cent by 2003 and beyond. In 1992, the health care trend rate was lowered from 13 per cent to 12 per cent. The health care trend rate change represents a modification from previous assumptions because of favorable experience and a lower inflation environment. The changes in plan assumptions had no significant impact on the Company's obligation at year end 1993. A one per cent increase in the health care trend rate would increase the amount reported for the accumulated obligation by $28 million and would result in $2 million additional expense for 1993.

LESOP. The Company's LESOP, adopted in 1988, is a defined contribution plan which covers substantially all United States employees who have completed at least 1,000 hours of service within a period of 12 consecutive months, and if hired on or after January 1, 1988, have attained 21 years of age.

The LESOP borrowed $700 million at an interest rate of 8.17 per cent through a 10 year loan guaranteed by the Company. The LESOP used the proceeds of the loan to purchase a new issue of convertible preferred stock from the Company. The Company used the proceeds from the issuance of preferred stock to the LESOP to purchase 28 million common shares of the Company in the open market.

The Company has reflected the guaranteed LESOP borrowing as long term debt on the Consolidated Balance Sheet. A like amount of "Guaranteed LESOP obligation" was recorded as a reduction of stockholders' equity. The convertible preferred stock issued to the LESOP for cash was recorded in the stockholders' equity section. As the Company makes contributions to the LESOP, these contributions, plus the dividends paid on the Company's preferred stock held by the LESOP, will be used to repay the loan. As the principal amount of the loan is repaid, the "Guaranteed LESOP obligation" is reduced accordingly.

The amount of compensation cost recorded by the Company represents its cash contribution to the LESOP.

The following table sets forth the status of the Company's retirement plans:

	December 31		
Retirement plans (In millions)	**1993**	1992	1991
Pension			
Present value of accumulated benefits			
Vested	**$ 1,367**	$ 1,227	$ 976
Non-vested	**80**	73	67
	$ 1,447	$ 1,300	$ 1,043
Present value of actuarial benefit obligation	**$ (1,781)**	$ (1,694)	$ (1,373)
Net assets at fair market value	**1,800**	1,585	1,561
Unrecognized transition asset, net of unrecognized losses	**216**	259	(64)
Net prepaid pension cost	**$ 235**	$ 150	$ 124
Postretirement health care benefits			
Accumulated benefit obligation			
Retirees	**$ 246**	$ 205	$ 191
Fully eligible active participants	**51**	82	77
Other active participants	**41**	43	42
	338	330	310
Unrecognized net loss	**(10)**	(7)	—
Net liability	**$ 328**	$ 323	$ 310
Key assumptions			
Rate of return on pension plan assets	**9.5%**	9.5%	9.5%
Discount rate	**7.25%**	8.0%	9.0%
Salary progression rate	**4.0%**	4.0%	6.0%

Total assets and equity (In millions)	Savings plans December 31 **1993**	1992	1991	Pension December 31 **1993**	1992	1991
JCPenney preferred and common stock	**$3,030**	$2,200	$1,720	**$ —**	$ —	$ —
Equity securities	**117**	103	79	**1,424**	1,232	1,188
Fixed income investments	**1,091**	1,061	902	**302**	275	279
LESOP loan obligation, including accrued interest of $17, $20, and $21	**(431)**	(498)	(560)	**—**	—	—
Other assets, net	**47**	37	32	**74**	78	94
Net assets	**$3,854**	$2,903	$2,173	**$1,800**	$1,585	$1,561

Changes in fair value of net assets (In millions)	Savings plans December 31 **1993**	1992	1991	Pension December 31 **1993**	1992	1991
Net assets at beginning of year	**$2,903**	$2,173	$1,823	**$1,585**	$1,561	$1,284
Company contribution	**50**	49	48	**65**	—	—
Participants' contributions	**184**	169	156	**—**	—	—
Gains	**984**	794	400	**236**	93	332
LESOP interest expense	**(35)**	(40)	(45)	**—**	—	—
Benefits paid	**(232)**	(242)	(209)	**(86)**	(69)	(55)
Net assets at end of year	**$3,854**	$2,903	$2,173	**$1,800**	$1,585	$1,561

Taxes. Taxes other than income taxes, over half of which were payroll taxes, totalled $416 million in 1993, as compared with $386 million in 1992 and $372 million in 1991.

The Financial Accounting Standards Board issued Statement No. 109, Accounting for Income Taxes, in February 1992. This statement requires an asset and liability approach to accounting for differences between the tax basis of an asset or liability and its reported amount in the financial statements (temporary differences). Deferred taxes are determined by applying the provisions of enacted tax laws, and adjustments are required for changes in tax laws and rates. The Company adopted Statement No. 109 effective January 31, 1993. Deferred taxes reflected on the balance sheet were reduced by $51 million, and a cumulative adjustment was recorded to increase net income by the same amount, using current tax rates in effect at the beginning of fiscal 1993.

The Omnibus Budget Reconciliation Act of 1993, which was signed into law on August 10, 1993, included an increase in the statutory Federal income tax rate from 34 per cent to 35 per cent, retroactive to January 1, 1993. This change in the tax rate resulted in higher taxes on operating income in 1993 as well as a one-time, non-cash tax expense totalling $14 million for the revaluation of deferred taxes on the balance sheet as required by Statement No. 109.

Deferred tax assets and liabilities reflected on the Company's consolidated balance sheet at January 29, 1994, were measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The major components of deferred tax liabilities (assets) at January 29, 1994, were as follows:

Temporary differences (In millions)	Deferred (Asset)	Deferred Liability	Net (Asset) Liability
Retirement plans	$ (191)	$ 154	$ (37)
Restructuring reserve	(49)	—	(49)
Worker's compensation/public liability	(78)	—	(78)
Leases	(36)	388	352
Accounts receivable	(22)	—	(22)
Inventories	(23)	125	102
Depreciation	—	704	704
Deferred policy acquisition costs	—	147	147
Other	(153)	159	6
Total	$ (552)	$1,677	$1,125

No valuation allowances were considered necessary as of January 31, 1993 or January 29, 1994. The Company believes that the existing deductible temporary differences will be offset by future reversals of differences generating taxable income.

Deferred taxes, under APB Opinion No. 11 in 1992 and 1991, consisted principally of accumulated depreciation and accounting for leases.

Income tax expense (In millions)	**1993**	1992	1991
Current			
Federal	**$ 443**	$ 372	$ 196
State and local	**67**	62	62
	510	434	258
Deferred			
Federal	**80**	29	(29)
State and local	**20**	19	(25)
	100	48	(54)
Total	**$ 610**	$ 482	$ 204
Effective tax rate	**39.3%**	38.3%	43.5%

	Amounts (In millions)			Per cent of pre-tax income		
Reconciliation of tax rates	**1993**	1992	1991	**1993**	1992	1991
Federal income tax at statutory rate	**$ 544**	$ 428	$ 159	**35.0**	34.0	34.0
State and local income taxes, less federal income tax benefit	**58**	53	25	**3.7**	4.2	5.1
Revaluation of deferred taxes	**14**	—	—	**.9**	—	—
Tax effect of dividends on allocated LESOP shares	**(9)**	—	—	**(.5)**	—	—
Interest, net of tax, on prior years' audit adjustments	**—**	—	21	**—**	—	4.6
Tax credits and other	**3**	1	(1)	**.2**	.1	(.2)
Total	**$ 610**	$ 482	$ 204	**39.3**	38.3	43.5

Segment reporting. The Company operates predominantly in one industry segment consisting of selling merchandise and services to consumers through retail department stores that include catalog departments. Total assets for that industry segment at the end of the last three years were $12,888 million, $11,820 million, and $10,987 million, respectively.

QUARTERLY DATA

(Unaudited)

(In millions except per share data)	First 1993	First 1992	First 1991	Second 1993	Second 1992	Second 1991	Third 1993	Third 1992	Third 1991	Fourth 1993	Fourth 1992	Fourth 1991
Retail sales $	**3,964**	3,793	3,433	**3,963**	3,789	3,456	**4,735**	4,342	3,937	**6,321**	6,085	5,375
Per cent increase (decrease)	**4.5**	10.5	(2.7)	**4.6**	9.6	(3.5)	**9.1**	10.3	(1.4)	**3.9**	13.2	2.2
Total revenue $	**4,106**	3,918	3,538	**4,106**	3,912	3,567	**4,888**	4,472	4,050	**6,478**	6,213	5,493
Per cent increase (decrease)	**4.8**	10.7	(2.2)	**5.0**	9.7	(2.8)	**9.3**	10.4	(1.0)	**4.3**	13.1	2.5
LIFO gross margin $	**1,280**	1,233	1,107	**1,191**	1,164	1,036	**1,530**	1,395	1,250	**1,985**	1,920	1,709
LIFO gross margin, per cent of retail sales	**32.3**	32.5	32.2	**30.1**	30.7	30.0	**32.3**	32.1	31.8	**31.4**	31.6	31.8
Selling, general, and administrative expenses, per cent of retail sales	**25.9**	26.7	28.4	**25.8**	27.1	27.8	**24.2**	25.0	26.3	**20.8**	21.7	22.0
Income before extraordinary charge and cumulative effect of accounting changes $	**172**	136	80	**112**	80	31	**221**	186	116	**439**	375	37
Net income (loss) $	**206**	136	(104)	**112**	80	31	**185**	186	116	**437**	375	37
Income per share before extraordinary charge and cumulative effect of accounting changes												
Primary $	**.68**	.54	.31	**.43**	.31	.10	**.88**	.75	.46	**1.80**	1.55	.12
Fully diluted $	**.65**	.52	.31	**.42**	.31	.10	**.83**	.70	.46	**1.65**	1.42	.12
Net income (loss) per common share												
Primary $	**.82**	.54	(.48)	**.43**	.31	.10	**.73**	.75	.46	**1.79**	1.55	.12
Fully diluted $	**.78**	.52	(.48)	**.42**	.31	.10	**.69**	.70	.46	**1.64**	1.42	.12
Dividends per common share $	**.36**	.33	.33	**.36**	.33	.33	**.36**	.33	.33	**.36**	.33	.33
Common stock price range												
High $	**45**	34	28	**49**	36	29	**52**	38	27	**56**	40	29
Low $	**36**	27	24	**41**	32	24	**39**	33	24	**49**	36	24

SUPPLEMENTAL

INFORMATION

(Unaudited)

Credit Operations. The following table presents the results of the Company's proprietary credit card operation, measuring on an all-inclusive basis the costs of granting, operating, and financing credit, net of finance charge revenue. Revenue, costs, and expenses contained in the table below relate to all customer accounts receivable generated and serviced by the Company, including those recorded as sold under asset securitization transactions. This presentation is designed to measure on an "economic basis" the total pre-tax cost of providing the JCPenney credit card to customers.

Pre-tax cost of JCPenney credit card (In millions)	**1993**	1992	1991
Finance charge revenue			
On receivables owned	**$ (523)**	$ (509)	$ (567)
On receivables sold	**(129)**	(166)	(197)
Total	**(652)**	(675)	(764)
Bad debt expense	**128**	171	240
Operating expenses (including in-store costs)	**265**	270	275
Cost of capital	**399**	417	496
Total	**792**	858	1,011
Pre-tax cost of JCPenney credit	**$ 140**	$ 183	$ 247
Per cent of JCPenney credit sales	**1.6%**	2.2%	3.1%

The cost of capital shown above represents the cost of financing both Company-owned accounts receivable and securitized accounts receivable. The cost of the sold receivables is the actual interest paid to certificate holders. The owned accounts receivables are financed with both debt and equity capital. The debt component uses the total Company weighted average interest rate, while the equity component uses the Company's minimum return on equity objective of 16 per cent. On a combined basis, for both owned and sold receivables, the debt and equity components of the total capital requirements were 88 per cent debt and 12 per cent equity, which approximates the finance industry standard debt to equity ratio.

	1993		1992		1991	
Credit sales	Amounts (In billions)	Per cent of eligible sales	Amounts (In billions)	Per cent of eligible sales	Amounts (In billions)	Per cent of eligible sales
JCPenney credit card	**$ 8.8**	**46.4**	$ 8.4	46.6	$ 7.9	49.3
American Express, Discover, MasterCard, and Visa	**2.9**	**15.4**	2.4	13.2	2.0	12.3
Total	**$11.7**	**61.8**	$10.8	59.8	$ 9.9	61.6

Key JCPenney credit card information (In millions)	**1993**	1992	1991
Number of accounts serviced with balances	**17.2**	17.5	18.3
Total customer receivables serviced	**$ 4,410**	$ 4,068	$ 4,489
Average customer receivables financed	**$ 3,767**	$ 3,901	$ 4,288
Average account balances (in dollars)	**$ 256**	$ 231	$ 244
Average account maturity (months)	**4.0**	4.1	4.7

Financing costs incurred by the Company to finance its operations, including those costs related to off-balance-sheet liabilities were as follows:

(In millions)	**1993**	1992	1991
Interest expense, net	**$ 241**	$ 258	$ 308
Interest portion of LESOP debt payment	**35**	40	45
Off-balance-sheet financing costs			
Interest imputed on operating leases	**97**	96	95
Asset-backed certificates interest	**87**	105	117
Total	**$ 460**	$ 499	$ 565

Debt to capital ratio shown in the table below includes both debt recorded on the Company's Consolidated Balance Sheet as well as off-balance-sheet debt related to operating leases and the securitization of a portion of the Company's customer accounts receivable.

(In millions)	**1993**	1992	1991
Short term debt, net of short term investments	**$ 1,128**	$ 502	$ 345
Long term debt, including current maturities	**3,277**	3,171	3,591
	4,405	3,673	3,936
Off-balance-sheet debt			
Present value of operating leases	**900**	950	900
Securitization of accounts receivable, net	**294**	731	1,186
Total debt	**$ 5,599**	$ 5,354	$ 6,022
Consolidated equity	**$ 5,365**	$ 4,705	$ 4,188
Total capital	**$10,964**	$10,059	$10,210
Per cent of total debt to capital	**51.1%**	53.2%	59.0%

FIVE YEAR

FINANCIAL

SUMMARY

(In millions except per share data)

J.C. Penney Company, Inc. and Subsidiaries

	1993[1]	1992	1991[2]	1990	1989[3]
Results for the year					
Total revenue	$ 19,578	18,515	16,648	16,736	16,405
Retail sales	$ 18,983	18,009	16,201	16,365	16,103
Per cent increase (decrease)	5.4	11.2	(1.0)	1.6	8.6
LIFO gross margin, per cent of retail sales	31.5	31.7	31.5	31.4	33.4
FIFO gross margin, per cent of retail sales	31.3	31.5	30.9	31.7	33.2
Selling, general, and administrative expenses, per cent of retail sales	23.7	24.7	25.6	26.2	25.8
Depreciation and amortization	$ 316	310	316	299	275
Income taxes	$ 610	482	204	255	368
Income before extraordinary charge and cumulative effect of accounting changes	$ 944	777	264	577	802
Net income	$ 940	777	80	577	802
Earnings per common share					
Primary					
Before extraordinary charge and cumulative effect of accounting changes	$ 3.79	3.15	.99	2.30	3.16
Net income	$ 3.77	3.15	.20	2.30	3.16
Fully diluted					
Before extraordinary charge and cumulative effect of accounting changes	$ 3.55	2.95	.99	2.16	2.93
Net income	$ 3.53	2.95	.20	2.16	2.93
Per common share					
Dividends	$ 1.44	1.32	1.32	1.32	1.12
Stockholders' equity	$ 21.53	19.17	17.33	18.38	17.81
Return on stockholders' equity	20.1	18.6	12.0	13.3	20.8
Financial position					
Receivables, net	$ 4,679	3,750	4,131	4,303	4,872
Merchandise inventories	$ 3,545	3,258	2,897	2,657	2,613
Properties, net	$ 3,818	3,755	3,633	3,532	3,268
Capital expenditures	$ 459	494	506	601	520
Total assets	$ 14,788	13,467	12,444	12,256	12,635
Total debt	$ 4,561	4,078	4,062	4,114	4,207
Stockholders' equity	$ 5,365	4,705	4,188	4,394	4,353
Number of common shares outstanding at year end	236	235	233	234	240
Weighted average common shares					
Primary	239	236	234	236	244
Fully diluted	261	258	234	260	268
Number of employees at year end (In thousands)	193	192	185	196	198

[1] *Excluding the impact of the tax rate increase on deferred taxes, after tax income was $958 million, or $3.60 per share, on a fully diluted basis.*

[2] *Excluding the effect of nonrecurring items and the cumulative effect of an accounting change, after tax income was $528 million, or $2.00 per share, on a fully diluted basis.*

[3] *Excluding the effect of nonrecurring items, after tax income was $822 million, or $3.00 per share, on a fully diluted basis.*

FIVE YEAR OPERATIONS SUMMARY

J.C. Penney Company, Inc. and Subsidiaries

	1993	1992	1991	1990	1989
JCPenney stores					
Number of stores					
Beginning of year	**1,266**	1,283	1,312	1,328	1,355
Openings	**24**	33	38	46	38
Closings	**(44)**	(50)	(67)	(62)	(65)
End of year	**1,246**	1,266	1,283	1,312	1,328
Gross selling space (In million sq. ft.)	**113.9**	114.4	114.5	114.4	112.8
Sales including catalog desks (In millions)	**$ 16,846**	15,698	14,277	14,616	14,469
Comparative store sales per cent increase (decrease)[1]	**6.4**	9.7	(1.5)	0.0	6.8
Sales per gross square foot[1]	**$ 146**	137	125	127	127
Catalog					
Number of catalog units					
JCPenney stores	**1,246**	1,266	1,283	1,312	1,328
Freestanding sales centers and merchants	**543**	640	697	626	501
Drug stores	**101**	128	134	136	126
Other, principally outlet stores	**14**	14	16	16	16
Total	**1,904**	2,048	2,130	2,090	1,971
Number of distribution centers	**6**	6	6	6	6
Distribution space (In million sq. ft.)	**11.4**	11.4	11.4	11.4	11.4
Sales (In millions)	**$ 3,514**	3,166	3,002	3,220	3,205
Drug stores					
Number of stores					
Beginning of year	**548**	530	487	471	434
Openings	**35**	30	46	22	39
Closings	**(77)**	(12)	(3)	(6)	(2)
End of year	**506**	548	530	487	471
Gross selling space (In million sq. ft.)	**4.6**	5.2	5.0	4.8	4.7
Sales (In millions)	**$ 1,413**	1,383	1,192	1,097	987
Sales per gross square foot[1]	**$ 235**	211	201	198	189
JCPenney Insurance (In millions)					
Premium income	**$ 416**	333	286	221	165
Policies and certificates in force	**5.8**	4.6	4.3	4.1	3.5
Amount of life insurance in force	**$ 7,627**	6,552	5,419	5,268	3,797
Total assets	**$ 1,246**	1,033	857	764	739

[1] *1992 is presented on a 52 week basis.*

PUBLIC AFFAIRS

Through several established programs, the Company continued its commitment to enhance the general environment of the communities in which it does business. Charitable contributions, community service, environmental affairs, and minority/women supplier development are major efforts reflecting this commitment.

Community relations. During 1993, the Company's charitable contributions totalled \$23 million nationwide. Of our total contributions, over one-third were given in the area of health and welfare, including the Company's support to nearly 1,000 United Way organizations. The 1993 United Way campaign raised a record \$13.8 million in JCPenney associate and unit pledges for local United Ways.

The Company's community relations programs continue to focus on kindergarten through grade twelve education and the support of volunteerism. 15 per cent of contributions were invested in education, including the replication of the JCPenney High Performance Schools Project, a project on school-based management, to two school districts in San Antonio, Texas. \$650 thousand was donated to 640 colleges and universities through the Matching Gift Program, and 200 children of JCPenney associates received college scholarships through the JCPenney Super Scholars program.

Major commitments in our focal area of supporting volunteerism include the expansion of our Golden Rule Award Program to 174 markets. These awards publicly honor community volunteers and support their work with contributions. The James Cash Penney Awards for Community Service provide similar recognition to JCPenney associates for outstanding volunteer activities. The two programs contributed approximately \$1.7 million to local charitable organizations.

Minority and women-owned businesses. JCPenney's Minority Supplier Development Program has been active since 1972. During 1993, purchases from minority and women-owned businesses were \$406 million and \$102 million, respectively. In addition to the purchasing of products and services, the Company had relationships with 36 minority-owned banks. The Company recognized, through its Minority Supplier Development Awards Program, eight minority owned-businesses and ten JCPenney associates for their contributions to the Minority Supplier Development Program.

In order to explore ethnic markets more closely, the Fashion Influences catalog was introduced and aimed at a multicultural audience. The catalog's circulation has grown from 400,000 to over 800,000 in just two years. At the same time, a special segment manager was appointed for each of the four merchandise divisions to help find appropriate merchandise for the Fashion Influences catalog as well as those stores that have large ethnic populations within their consumer base.

Environmental affairs. JCPenney is committed to doing business in an environmentally responsible manner. At the center of this commitment stands a determination to make environmental considerations a part of corporate decision making and policy.

Leadership for this effort comes from an Environmental Affairs Committee composed of senior officers. Under their direction, the Company continuously seeks to assure that its operations, to the fullest extent feasible, preserve and improve the environment and protect the health and safety of associates, customers, and communities where JCPenney does business. The Committee has set forth a Statement of Principles on the Environment reflecting the Company's commitment to these goals.

The Company also has an Environmental Issues Task Force consisting of various subcommittees that are studying specific matters such as merchandise packaging, recycling, and trash disposal.

Significant progress has been made towards the Company's environmental goals, especially in recycling. For example, JCPenney is using recycled-content paperboard for all apparel, jewelry, and gift boxes. An environmental packaging recognition award for JCPenney associates has been introduced to encourage the reduction of unnecessary merchandise packaging. In addition, stores are recycling most of the corrugated cardboard boxes in which merchandise shipments are received. The Company also continues to explore sources of high-quality, reasonably priced recycled-content paper for its advertising supplements, catalogs, and other printed matter, and to utilize them where feasible.

An office paper and plastic recycling program is in place in the Company's home office in Plano, Texas, and in a number of other facilities around the country, and a test has been launched in retail stores. State and local officials have recognized one such program, developed by associates at the Manchester, Connecticut, Catalog Distribution Center, as a model for other businesses.

Also, the Company has formal guidelines for evaluating and substantiating environmental themes and claims proposed for merchandise, packaging, labeling, and promotions.

Copies of A Special Report Update on the Company's Environmental Responsibility, including the Company's Statement of Environmental Principles, may be obtained as indicated on page 37 of this Annual Report.

Equal employment opportunity. The Company adheres to a policy of equal employment opportunity. The following employment information summary represents associates of J.C. Penney Company, Inc. and wholly-owned subsidiaries, excluding facilities in Puerto Rico and Canada. The information provided delineates minority and female representation in major job categories.

	Total employed		Per cent female		Per cent minority	
Employment information	**1993**	1989	**1993**	1989	**1993**	1989
Officials, managers, and professionals	**19,205**	18,959	**47.7**	40.6	**12.0**	10.1
Management trainees	**628**	1,359	**62.7**	62.3	**34.2**	18.1
Sales workers	**99,506**	107,799	**87.7**	87.9	**19.1**	16.4
Office and clerical workers	**33,847**	26,207	**89.2**	90.2	**18.3**	16.0
Technicians, craft workers, operatives, laborers and service workers	**38,911**	42,129	**68.4**	70.9	**24.3**	20.9
Total	**192,097**	196,453	**80.0**	79.8	**19.3**	16.7

CORPORATE GOVERNANCE

The Company is aware that many of its stockholders are interested in matters of corporate governance. JCPenney shares this interest and is, and for many years has been, committed to assuring that the Company is managed in a way that is fair to all its stockholders, and which allows its stockholders to maximize the value of their investment by participating in the present and future growth of JCPenney.

Independent Board of Directors. In keeping with its long-standing practice, the Company's Board continues to be an independent board under any reasonable definition. All but one director have principal occupations or employment outside of the Company. Nominees for directors are selected by a committee composed entirely of directors who are not Company employees. The wide diversity of expertise, experience, and achievements that the directors possess in business, investments, large organizations, and public affairs allows the Board to most effectively represent the interests of all the Company's stockholders.

Independent committees. The principal standing committees of the Board of Directors are composed entirely of directors who are not employees of the Company. These committees include the Audit Committee, Benefit Plans Review Committee, Committee on Directors, Personnel and Compensation Committee, and the Public Affairs Committee. These committees, as well as the entire Board, consult with and are advised by outside consultants and experts in connection with their deliberations as needed.

Executive compensation. A significant portion of the cash compensation received by the Company's executive officers consists of performance incentive compensation payments derived from compensation plan "values." The amounts of these plan values are directly related to the annual and long-term sales and earnings of the Company and, consequently, vary from year to year based upon Company performance. The total compensation package for the Company's executive officers is set by the Personnel and Compensation Committee, which is composed entirely of directors who are not employees of JCPenney and which receives the advice of independent outside consultants. Please refer to the Company's 1994 Proxy Statement for a report from the Company's Personnel and Compensation Committee describing how compensation determinations are made.

Confidential voting. The Company has previously adopted a confidential voting policy statement. Under this policy, all proxy (voting instruction) cards, ballots, and vote tabulations which identify the particular vote of a stockholder are kept secret from the Company, its directors, officers, and employees. Proxy cards are returned in envelopes directly to the tabulator, who receives and tabulates the proxies. The final tabulation is inspected by inspectors of election who are independent of the Company, its directors, officers, or employees. The identity and vote of a stockholder is not disclosed to the Company, its directors, officers, or employees, or any third party except (i) to allow the independent election inspectors to certify the results of the vote; (ii) as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company; (iii) in the event of a proxy solicitation based on an opposition proxy statement filed, or required to be filed, with the Securities and Exchange Commission; or (iv) in the event a stockholder has made a written comment on such material.

BOARD OF DIRECTORS

M. Anthony Burns[2,4,5]
Chairman, President and Chief Executive Officer, Ryder System, Inc.

Colby H. Chandler[3,4]
Formerly Chairman and Chief Executive Officer, Eastman Kodak Company

William R. Howell
Chairman of the Board and Chief Executive Officer

Vernon E. Jordan, Jr.[2,3,5]
Senior Partner, Law Firm of Akin, Gump, Strauss, Hauer & Feld

George Nigh[2,3,4]
President, University of Central Oklahoma and Formerly Governor of Oklahoma

Jane C. Pfeiffer[3,4,5]
Independent Management Consultant

A. Kenneth Pye[1,2]
President, Southern Methodist University

Charles S. Sanford, Jr.[1,3]
Chairman, Bankers Trust New York Corporation and Bankers Trust Company

Joseph D. Williams[1,2,5]
Retired, Formerly Chairman and Chief Executive Officer, Warner-Lambert Company

Boris Yavitz[1,2,5]
Paul Garrett Professor of Public Policy and Business Responsibility and Former Dean, Graduate School of Business, Columbia University

OFFICE OF THE CHAIRMAN

William R. Howell
Chairman of the Board and Chief Executive Officer

James E. Oesterreicher
President of JCPenney Stores and Catalog

W. Barger Tygart
Senior Executive Vice President
Director of Merchandising and Support Operations

Robert E. Northam
Executive Vice President
Chief Financial Officer

Terry S. Prindiville
Executive Vice President
Director of Support Services

JCPENNEY STORES AND CATALOG

John T. Cody, Jr.
Executive Vice President
Director of JCPenney Stores

Thomas D. Hutchens
Executive Vice President
Director of Merchandising

Thomas B. Ashmore
President, Northeastern Region

Gary L. Davis
President, Northwestern Region

Edward T. Howard
President, Southwestern Region

R. H. Seaman
President, Southeastern Region

William E. McCarthy
President, Catalog Division

Marilee J. Cumming
President, Home and Leisure Division

James L. Hailey
President, Women's Division

J. Raymond Pierce
President, Men's Division

N. Tice Siegel, Jr.
President, Children's and Family Shoes Division

J. Thomas Arthur
Vice President
Director of Merchandising, Catalog Division

Marshall Beere
Vice President
Director of Merchandising, Women's Division

Andrew Cumming
Vice President
Director of Merchandising, Children's and Family Shoes Division

Julius L. Debos
Vice President
Director of Merchandising, Home and Leisure Division

Kay E. Egan
Vice President
Director of Merchandise Development, Home and Leisure Division

Peter G. Fenlon
Vice President
Director of Operations, Catalog Division

Jack Fleischer
Vice President
Director of Merchandising, Men's Division

David E. Fulcomer
Vice President
Director of Merchandising, Men's Division

Jerrial M. Goad
Vice President
Director of Marketing and Visual Communications

Anton C. Haake
Vice President
Director of Quality Assurance

George K. Kapplinger
Vice President
Director of JCPenney Store Operations, Latin America

Ralph W. LaRovere
Vice President
Director of Merchandising, Home and Leisure Division

Louis Lynn, Jr.
Vice President
Director of the Shoe Group, Children's and Family Shoes Division

Peter M. McGrath
Vice President
Director of Merchandise Development, Children's and Family Shoes Division

William E. Nolta
Vice President
Director of Catalog Advertising and Publications

Randy S. Ronning
Vice President
Associate Director of Merchandising

Kenneth T. Russo
Vice President
Director of International Sourcing

Joseph P. Sapienza
Vice President
Director of Merchandise Development, Men's Division

Lucinda C. Sapienza
Vice President
Director of Merchandising, Women's Division

Donald F. Scaccia
Vice President
Director of Merchandise Development, Women's Division

Gerald L. Shores
Vice President
Director of Merchandising, Women's Division

Michael Todres
Vice President
Director of Distribution and Non-Resale Purchasing

COMPANY-WIDE

Gale Duff-Bloom
Executive Vice President
Director of Administration

Charles R. Lotter
Executive Vice President
Secretary and General Counsel

Ted L. Spurlock
Senior Vice President
Director of Financial Services and Company Communications

William J. Alcorn
Vice President
Director of Credit

Thomas A. Clerkin
Vice President
Director of Planning, Research, and Specialty Retailing

David V. Evans
Vice President
Director of Information Systems

John E. Fesperman
Vice President
Director of Insurance

Leo A. Gispanski
Vice President
Controller

Bruce A. Hill
Divisional Vice President
Assistant Director of Personnel

Jay F. Hundley
Vice President
Director of Personnel

Howard J. Johnson
Vice President
Director of Auditing

Russell H. Longyear
Vice President
Director of Communications

N. Michael Lowenkron
Vice President
Director of Real Estate

Donald A. McKay
Vice President
Treasurer

Richard P. O'Leary
Vice President
Director of Construction Services

Donald M. Rose
Divisional Vice President
Personnel Relations Director

Mary A. Rostad
Divisional Vice President
Assistant Director of Personnel

James C. Schwaninger
Vice President
Director of Government Relations

M. Christopher Sears
Vice President
Executive Assistant to the Chairman

Delmer R. Threadgill
Vice President
Director of Taxes

Wynn C. Watkins
Vice President
Director of Investor Relations

ASSISTANT CONTROLLERS

Nancy F. Brigham
William J. Longtine
Michael D. Reardon

ASSISTANT SECRETARIES

Frank J. Bonet
Thomas M. Comerford
Cornelius T. Dorans
Alfred O. Goellner
Margaret R. Johnson
Eugene P. McGreal
Jeffrey J. Vawrinek

ASSISTANT TREASURERS

Robert B. Cavanaugh
Stephen F. Walsh

1. Member of the Audit Committee of the Board of Directors. This committee recommends to the Board of Directors for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The committee also reviews the audit plans, scope, fees, and audit results of the auditors; reports on the adequacy of internal accounting controls; non-audit services and related fees; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings.
2. Member of the Public Affairs Committee. This committee identifies, analyzes, and brings to the attention of the Board social and environmental trends, community affairs, and public policy issues which may have a potential impact on the business performance and investment character of the Company. It assures that Company policy and performance reflect a sensitivity toward the social and physical environments in which the Company does business and that such policy and performance are in accord with the public interest.
3. Member of the Committee on Directors. This committee makes recommendations to the Board with respect to the size, composition, and functions of the Board of Directors, the qualifications of directors, candidates for election as directors, and the compensation of directors.
4. Member of the Personnel and Compensation Committee. This committee reviews the Company's annual and long term incentive compensation plans, makes recommendations in areas concerning personnel relations, and takes action or makes recommendations with respect to the compensation of Company executive officers, including those who are directors. It is also the committee which administers certain of the Company's incentive compensation and retirement plans.
5. Member of the Benefit Plans Review Committee. This committee reviews annually the financial condition and investment performance results of the Company's retirement plans, annual actuarial valuation reports for the Company's pension plan, and the financial condition, investment performance results, and actuarial valuation aspects of the Company's welfare plans.

All of the committees described above are composed entirely of outside directors.

ANNUAL MEETING

Our Annual Meeting of Stockholders will be held at 10 a.m., Friday, May 20, at the Company's Home Office located at 6501 Legacy Drive, Plano, Texas 75024-3698. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 12, 1994.

EXCHANGE LISTINGS

The New York Stock Exchange
(Ticker symbol - JCP)

Brussels and Antwerp
Stock Exchanges

REGISTRAR/TRANSFER AGENT

Chemical Bank
450 West 33rd Street
New York, New York 10001

OTHER INFORMATION

Copies of the following are available upon request:

- The Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for 1993
- JCPenney Minority Business Opportunities, a handbook to minority suppliers
- JCPenney Community Partners, the Company's social responsibility report
- JCPenney's Special Report Update on Its Environmental Responsibilty

Requests for the above should be addressed to:

Sandi Petty
Investor Relations Department
J.C. Penney Company, Inc.
P.O. Box 10001
Dallas, Texas 75301-8105
(214) 431-1488

Copies of J.C. Penney Funding Corporation's Annual Report are available from:

Judy Hagaman
J.C. Penney Funding Corporation
P.O. Box 10001
Dallas, Texas 75301-1318
(214) 431-2216

Inquiries about your Company's Dividend Reinvestment Plan or your stockholder record should be forwarded to:

Chemical Bank
Securityholder Relations Department
J.A.F. Building
P.O. Box 3068
New York, New York 10116-3068
1-800-842-9470
Monday-Friday, 8:00 a.m.-8:00 p.m.
Eastern Time

Printed on paper with a total recycled fibre content of not less than 50% including 10% post-consumer waste.